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UNITED STATES DEPARTMENT OF AGRICULTURE  
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THE EUROPEAN COMMUNITY'S COMMON AGRICULTURAL POLICY  
Implications for U. S. Trade

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## FOREWORD

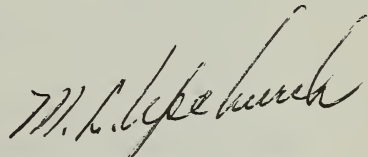
This report gives a general explanation of the European Community's Common Agricultural Policy (CAP) and it describes the impact of the CAP on U.S. agricultural exports. The CAP for each major commodity group is explained in economic terms and is placed in perspective with a discussion of farm production and patterns of use in the Common Market.

This report should be helpful to U.S. Government officials and others concerned with international trade and with the U.S. balance of payments. Also it should help private exporters and farmers appraise the effect of the CAP on their business. In addition it should interest economists, educators, and all who have a need to understand current events in Europe.

For several years economists in USDA felt the need for a straightforward explanation of the Common Market's CAP. Until now it was difficult to prepare such a publication because many important issues were unsettled and existing regulations were transitional. By mid-1968, however, a single Community market had been created for most agricultural products.

Impetus was given to the preparation of this report by a request to the Economic Research Service from the Office of the Special Representative for Trade Negotiations (STR). In 1968 the STR requested a staff report for distribution to the President's Public Advisory Committee on Trade Policy. The report was prepared and submitted, and with subsequent revisions and refinements it became the basis for this publication.

The authors, with the help of many specialists in the Foreign Agricultural Service and the Economic Research Service, USDA, have made a notable contribution to economic information of vital importance to American agriculture. Special credit goes to Raymond P. Christensen, Director of the Foreign Development and Trade Division, ERS, for his strong support throughout the project; to Betty Case for her highly efficient management of the computer processing of the trade data, and to Hans Hirsch for his competent professional contributions to the entire publication.



M. L. Upchurch, Administrator  
Economic Research Service

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## SUMMARY AND CONCLUSIONS

Implementation of the European Community's Common Agricultural Policy has had an impact on international trade in many agricultural commodities. The hallmark of the CAP is a system of minimum import prices and variable levies, with modifications and exceptions where dictated by production, marketing, and institutional conditions. For many agricultural products the European Community (EC) has become insulated from world market price levels. This has significant bearing on international production and consumption incentives and, in turn, on the level and flow of trade.

The CAP has brought about these general changes which affect U.S. exports:

- 1) Higher prices for farm produce in most member states under a price support system intended to assure "adequate income" to farmers. There are no provisions for production controls except the rather generous quotas on sugar.
- 2) Protection of Community farmers from import competition via a variable levy system which generally increases prices of imported commodities above those for domestically produced goods.
- 3) Removal of nearly all trade barriers among member nations, making all markets equally accessible to all farmers within the Community.
- 4) Establishment of a Community-financed export subsidy system, providing subsidies at levels required to sell products in world markets.

Although there are exceptions to these points, they apply to the bulk of the Community's agricultural production.

High internal prices tend to encourage increases in production while dampening growth in consumption, although significant responses to farm price increases are not generally demonstrable. For example, higher yields have lifted production despite a modest reduction in land under cultivation. The responsible yield-raising techniques may have been adopted more rapidly than usual under the stimulus of high prices. Grain yields in 1967 and 1968 were much above previous levels. Favorable weather is given major credit, but price-induced changes in production practices may have reinforced the effects of good weather. Although the impact of higher prices on consumption is even more difficult to isolate, some restraining effect appears to have emerged, particularly in the last year or two.

EC policymakers are finding it impossible to assure "adequate" income to the many small producers by a system relying primarily on high prices. Budgetary costs are mounting rapidly without realization of producers' income aspirations. Further strains are being placed on the system because the distribution of expenditures among countries differs from the pattern of contributions. Therefore, internal pressures against higher prices are increasing, resulting in discussions of alternative methods of raising farmers' income, such as structural reform in agriculture.

Freeing of the Community's internal trade and applying variable levies to imports relegate the United States and other supplying nations to the role of residual suppliers because they are not permitted to compete in price with EC produced commodities. And recent price movements tend to reduce the size of the residual or at least to slow its growth. These movements not only limit U.S. export prospects to the Community, but Community exports also stiffen competition faced by U.S. exports in Japan, the United Kingdom, and other major agricultural importers. Moreover, exporters such as Canada, Argentina, and Denmark encounter greater difficulties in exporting to the Community and turn their attention increasingly to these other markets.

Export subsidies permit EC exports to cause disruption in third country markets. The decision to export is based primarily on the existence of Community surpluses, with seemingly little regard to the supply and price situation in world markets and usually despite the lack of any natural competitive advantage due to lower production costs. Effects of the export subsidies have been demonstrated on several occasions.



For several commodities the Community's aggressive export programs have displaced or threatened to displace products--poultry, barley, lard, canned ham, canned tomatoes and tomato paste, and numerous dairy products--from the United States and other traditional suppliers.

Other developments indirectly associated with the CAP within the Community have affected U.S. exports. Rising per capita incomes have stimulated demand for meats and other high resource-using foods, contributing to an increase in consumption exceeding the growth in production. As a result, import requirements grew rapidly until the drop in 1967--brought on by the record harvest of grain. The changing consumption patterns encouraged livestock production and stimulated demand for livestock feeds which make up a substantial proportion of U.S. agricultural exports. The United States has shared in this growing market mainly by increased sales of soybeans, oil meals and cakes, and feed grains.

The United States has a trade interest in a wide variety of agricultural commodities and therefore is affected by most developments in Community agriculture. However, because of the importance of feed grains and oilseeds in U.S. trade with the Community, developments in these commodities are of particular interest.

After phenomenal growth through 1966, U.S. exports of feed grains to the Community dropped sharply in 1967 and declined further in 1968--a reflection of the large EC grain crops in 1967 and 1968. Future export levels for U.S. feed grains will depend on whether the recent growth in EC grain yields is maintained, accelerated, or dampened more in line with longer term trends. There is considerable uncertainty about which level is most likely in the next few years.

Soybeans and soybean products make up the other major category for which exports have grown significantly. This growth continued in 1967 but faltered in 1968. Many factors appear favorable to further expansion in the oilseed market, but recent proposals for the imposition of taxes on the consumption of vegetable oils and oilcake and meal in the Community cast a shadow on the otherwise seemingly bright prospects.

On August 8, 1969, the French Government devalued the French franc by 11.1 percent (in terms of gold content of the franc). With Community agricultural prices denominated in units of account, the devaluation by itself would automatically increase prices of French agricultural commodities. However, France was authorized to hold its farm prices at previous levels, in terms of francs, for the 1969-70 marketing year. To accomplish this the French Government will subsidize imports and tax exports of agricultural products by amounts which compensate for the devaluation. These arrangements temporarily suspend price unification and unrestricted trade of agricultural products within the Community. The effectiveness of the administration of these arrangements is to be reviewed during the fall of 1969. Also at that time decisions are to be made on steps to be taken which will bring French prices back into line with the rest of the Community (in terms of the unit of account) by the 1971-72 marketing year at the latest. The devaluation and accompanying measures do not significantly affect the discussion in this report except that when price adjustments are made in France, prices to French farmers will be increased further and thus accentuate the production incentives already existing.



# **THE EUROPEAN COMMUNITY'S COMMON AGRICULTURAL POLICY**

## **Implications for U.S. Trade**

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### **INTRODUCTION**

The European Community (EC) is the largest foreign market for U.S. farm products. U.S. agricultural exports to the Community have exceeded \$1 billion annually since 1959, reaching a peak of nearly \$1.6 billion in 1966. These exports have contributed importantly to the trade balance of the United States and have made a significant contribution to the U.S. balance of payments.

Since adoption by the Community of the first provisions of the Common Agricultural Policy (CAP) in 1962, the United States and other trading partners have been very apprehensive regarding the impact of this policy on world trade in agricultural products. The movement from national policies on production and trade to a common system has set in motion a complex series of economic forces. The impact on trade is not always immediately apparent and is frequently obscured by other developments, making cause and effect relationships difficult to establish. However, sufficient time has elapsed since implementation of the CAP to permit observation of some of the consequences.

Following implementation of the first transitional regulations of the CAP in 1962, EC imports of agricultural products continued upward until 1967. U.S. agricultural exports to this market followed a similar pattern, with a decline in 1967 following significant increases in previous years. Even during the period of expanding aggregate U.S. exports to the EC, there were specific instances of injury to U.S. trade, both with the Common Market and with other countries as a result of increased competition from Community exports. Moreover, the fundamental approach of the CAP appears to be creating conditions that will lead to increased and more general effects on world trade, and specifically, on U.S. exports to the EC as well as other markets.

To assist in evaluating the impact to date and in detecting probable future difficulties, this report reviews the basic features of the CAP for products of export interest to the United States, discusses EC production, consumption, and trade trends during the 1960's and examines some of the recent and probable future problem areas.

# DEVELOPMENTS AFFECTING COMMUNITY AGRICULTURE SINCE THE ROME TREATY

## DEVELOPMENT OF THE COMMON AGRICULTURAL POLICY

Founders of the Community recognized the special problems of agriculture and provided for the establishment of common policies to deal with them. The Rome Treaty<sup>1</sup> lists the following agricultural policy objectives: (1) increasing agricultural productivity, (2) maintaining a fair standard of living for the rural population, (3) stabilizing markets, (4) assuring regular supplies, and (5) maintaining reasonable consumer prices.

The first action to implement policies directed toward the achievement of these objectives was adoption in January 1962 of basic market regulations for grains (except rice), poultry and eggs, pork, fruit and vegetables, and one of limited scope for wine and a Community financial regulation. These regulations, and others subsequently adopted, provided for transitional periods to permit gradual harmonization of national agricultural and trade policies. During the transitional periods common trading rules became applicable and steps were taken to move toward a unified market for the various commodities and commodity groups.

Community regulations, however, have not had an orderly sequence that might have made the impact on trade become gradually apparent. Some of the provisions have affected trade indirectly through production incentives and thus become fully effective after considerable time lag. Some lag can also be expected in the redirection of intra-EC trade as adjustments are made to exploit the implicit opportunities of a single Community market. Other provisions have a discontinuous effect in that conditions governing trade are not altered in a uniformly progressive manner. Trading conditions midway in the transition period cannot be considered as being halfway between the old and the new systems. Therefore, one cannot evaluate the impact at a midway point and extrapolate the changes for an estimate of the full impact of the unified system.

The CAP has evolved by the adoption of a series of regulations establishing common arrangements governing

marketing of commodities or groups of them. These differ as dictated by conditions of production and marketing, but most have certain common characteristics. The most pervasive element is the reliance on a minimum import price and some form of variable levy to protect and insulate the domestic price from lower world prices. Because the Community is an exporter as well as an importer of many commodities, the regulations provide for export subsidies to permit sales at competitive prices on world markets. The result is a separation of the internal market, where trade is relatively unrestricted, from the world market. A linkage is provided by variable import levies and export subsidies. This is not the first historical instance of such a method of domestic market insulation, but it is the first time it has occurred on such a broad scale and for such an important trading entity. Especially because of the latter characteristic the repercussions on the world market are great. Community spokesmen claim that the system has a neutral effect on world market prices because it only maintains the differential needed to assure its producers of the agreed prices. However, the magnitude of EC trade in many commodities relative to total quantities traded in world markets is large enough to have significant price effects.

A CAP characteristic that causes great complications in the negotiation of trade concessions in the usual sense is the complete integration of price support and trade policies. Any country must maintain a degree of consistency between the two policies, but the unique feature of the Community system is that these relationships are explicit and visible to all. It may be argued that a variable levy is a form of duty and as such may be negotiated downward or that some maximum level may be agreed to. However, to institute such a change would require a reduction in the level of support, or at least open the way for a reduction if world market prices declined. This would conflict with a basic goal of the Community's agricultural policies—assurance of a given level of prices without regard to the level of world prices.

Concern for maintaining the independence of EC prices from unrestricted changes in world prices was demonstrated by an EC proposal for negotiations on support levels (the "montant de soutien") during the

<sup>1</sup> The Rome Treaty establishing the European Economic Community was signed by member state representatives for France, West Germany, Italy, Belgium, Luxembourg, and the Netherlands, on March 25, 1957, and came into force on January 1, 1958.



Kennedy Round. If agreement could be reached on world reference prices, which were to be minimum world prices, Community leaders expressed willingness to agree to placing a limit on the difference between reference prices and the prices guaranteed to their producers. When other participants in the Kennedy Round negotiations refused to accept this proposal, no meaningful concessions were offered by the EC on price or levy reductions.

Current regulations providing for commodity organizations apply to approximately 90 percent of the Community's agricultural production. In terms of trade with third countries, the share is considerably lower, about 35 percent. Additional products for which regulations are in various stages of preparation are tobacco, non-edible horticultural products, hops, fish and fish products, and quality wine. Mentioned as possible products to be covered by common market organizations in the future are potatoes, textile plants (flax, hemp), mutton and lamb, bananas and cork.

A key element in the operation of the CAP is the European Agricultural Guidance and Guarantee Fund (FEOGA).<sup>2</sup> This fund was set up to provide for common financing of programs supporting EC agriculture. Member state contributions are based partly on import levy receipts and partly on a budgetary key. This results in the major agricultural importing countries making substantial contributions to the Fund. Fund disbursements tend to accrue to countries producing the largest volume of agricultural products, particularly those in surplus and thus exportable. Therefore, substantial intercountry financial transfers occur. Although an obvious consequence of the FEOGA provisions, these transfers have been a continuous source of irritation for countries such as Germany and Belgium which find their contributions considerably exceeding their receipts.

In addition to the problem of distribution, the magnitude of the funds involved has become a matter of great concern to the finance ministries of member countries as product coverage and total costs increase. This has led to a limitation of Community liability on dairy products and olive oil and may well be a force in bringing about program changes.

Distinct from the CAP but influencing its provisions for several commodities are the various association agreements with countries outside the EC.<sup>3</sup> These call for special relationships, including preferential trading arrangements between the EC and associated members.

<sup>2</sup> The initials FEOGA are from the French name Fonds européen d'orientation et de garantie agricole.

<sup>3</sup> Three major agreements are included:

\* Convention of Association (Yaounde Convention) with the Associated African and Malagasy States (AASM). This agreement with 18 independent African nations which are

## CHANGES IN FACTORS AFFECTING CONSUMPTION OF AGRICULTURAL PRODUCTS

In considering probable future growth in demand for agricultural products, it is necessary to look at the major demographic and economic variables that provide the framework within which change in consumption will occur. These variables include general population growth and changes in per capita income.

### Population

The EC population approached 185 million in 1967, approximately 14 million less than that of the United States. Population growth rates in the EC during recent years have been substantially below those in the United States and many other regions of the world. The EC recorded a 1.15 percent annual increase in population from 1960 to 1965, compared with a U.S. rate of 1.50 percent. The growth rate has been decreasing in recent years after a period of acceleration which reflected, in part, a significant level of immigration. But this has not been a major factor in population change since 1962 and is not expected to be very important in the future. The rate of population increase will probably continue to decline.

### Income

The economy of the EC generates a gross national product (GNP) of substantially less than 50 percent of that in the United States. Total GNP of EC member countries was equivalent to approximately \$341 billion in 1967 compared to almost \$804 billion for the United States. Within the EC, GNP in 1967 at current prices ranged from a high of approximately \$121 billion in Germany to a low (excluding Luxembourg) of about \$20 billion in Belgium. Average per capita GNP in the EC was about \$1,850 in 1967; the U.S. average for the same year was \$4,040. Per capita GNP was highest in France (\$2,190) and Germany (\$2,030) and lowest in Italy (\$1,280).

Economic growth in the EC during the 1960's has provided a favorable climate for expansion of consumption, including that of agricultural products. Total gross

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former colonies of individual member states, mainly France, expired on May 31, 1969, and is in the process of being renegotiated.

\* Agreement of Association with Greece came into force on November 1, 1964; it is designed to bring about a Customs Union and provides for the possibility of Greece acceding to the EC at some future date.

\* Agreement of Association with Turkey also provides for the possibility of accession to the Community.

national product in the EC increased at a somewhat greater rate than in the United States over the same period. Most rapid increases occurred in Germany, France, and Italy. However, each of these countries has experienced periods of reduced expansion. The Italian economy expanded only moderately in 1964 and 1965 while the growth rate in Germany was much reduced in 1966 and was slightly negative in 1967. France has not experienced as wide fluctuations in its growth rate, but the events of May-June 1968 probably reduced its growth in 1968. Economies of the smaller countries have grown at a somewhat slower rate for the period since 1960.

The EC appeared to be entering an economically buoyant phase in 1968 until developments in France obscured the picture. The impact of these developments cannot yet be fully evaluated, but possibilities are good for recovery in France and a continuation of favorable growth rates in the EC. Official Community sources estimate that the real gross Community product increased 5 percent in 1968 and they predict the same growth rate in 1969.

As would be expected with growing income, food expenditures as a share of total consumption expenditures have been declining, although they average higher in the EC than in the United States. Variation among countries in food expenditure's share of total consumer expenditures reflects both the level of per capital income and the general level of food prices.

Despite a declining portion of income spent for food, the increase in food expenditures (measured in constant prices) has been relatively rapid and for the EC as a whole has been approximately twice the rate of increase in the United States. The increase in Germany and Italy has been above the EC average, and below it in other member countries.

Rates of increase in food consumption into the next decade are generally expected to be somewhat lower than in the past. A decline in the relatively high level of potato consumption in the four northern countries and in the very high level of fruit and vegetable consumption in Italy can be expected along with a substantial increase in livestock product consumption throughout the area.

## CONDITIONS FOR AGRICULTURAL PRODUCTION IN THE EC

Agricultural production in the EC is influenced by a variety of climatic, environmental, and economic factors.

Although climatic conditions vary considerably, there is much less variation than in the United States. With the exception of a relatively few areas, annual rainfall is within a range of 24 to 35 inches and is fairly well

distributed throughout the year. Temperatures are generally moderate with no significant region having a mean January temperature below 32°F nor mean July temperature above 77°. Except in parts of southern France and Italy, the climate is favorable to agriculture, particularly for grass and grains.

One feature of EC agriculture important to its future development is the large number of farms for the agricultural land area and the consequent small size of most farms. Another characteristic is that much of the agricultural land is sloping, so that it is not suitable for cultivation and remains in permanent pasture. Even much of the cultivated area is not suitable for mechanization and would not be cultivated under U.S. conditions.

These factors, together with the employment conditions outside agriculture, are strong determinants of the way farms in the EC are organized and of the rate and direction in which they will change. Several studies have found that the single most important determinant of farm organization and profitability was the farm size relative to the labor force. Farms tend to be organized around the labor force available relative to the size and terrain of the farm.

Although small size, slope, and fragmentation make mechanization physically difficult and economically unsound for many farms in the EC, especially in the mountainous regions, farming has been rapidly mechanized in the past few years. Substitution of capital for human effort has been large and is expected to continue at a rapid pace, but the end result is likely to be an agriculture that still requires a relatively high farm product price in order to provide even low returns to the majority of small farms. Thus, political pressures will remain strong for maintaining farm prices at least at current levels.

EC agricultural output has grown significantly in past years. The index of total agricultural production valued at 1958 prices reached 118 in 1966, (1959-61 = 100) (table 1). Livestock production has grown somewhat

TABLE 1.-EC index of agricultural production for 1966 valued at 1958 prices

Country	Agricultural production		
	Crop	Livestock	Total
	1959-61 = 100		
Germany.....	95	120	113
France.....	120	120	120
Italy.....	120	121	120
Netherlands.....	119	114	116
Belgium.....	107	112	110
EC <sup>1</sup> .....	115	119	118

<sup>1</sup> Excluding Luxembourg

Source: Statistique Agricole, 1968- No. 4



more rapidly than crop production. Some differences also appear in the rate of expansion for individual countries. The greatest difference is the slower growth rate for crop production in Germany.

Production increases for the EC have occurred despite significant declines in the agricultural labor force and a modest reduction in land devoted to agriculture. Of a total labor force which has increased moderately over the past decade, the agriculture share has declined markedly, leading to substantial reductions in the agricultural labor force. From nearly 25 percent of the total labor force in the mid-1950's, agricultural employment's share declined to slightly over 15 percent in 1967. For individual countries the percentage ranged from a high of 24.1 for Italy to a low of 5.8 for Belgium. The percentages in other countries were 16.6 in France, 10.6 in Germany, and 8.3 in the Netherlands. The trend toward a reduced agricultural labor force is expected to continue.

Data on land utilization reveal a consistent though moderate decline in total agricultural land use since 1958. Previously in the 1950's, nearly 73 million hectares were devoted to agricultural production. By 1967 the total had declined to slightly under 71 million hectares (table 2). Land taken out of agriculture went into highways, urban development, and other nonfarm uses, and some was abandoned as no longer suitable for farming.

These data also show that the amount of land used for different types of crops has not changed drastically, although there have been some significant changes.

Acreage in root and tuber crops has declined more than 1 million hectares, and total grain area has dropped more than one-half million. The reduction in grain area has occurred primarily in wheat, with coarse grains and rice holding about constant. Other categories of changes are in pulses, where a large percentage reduction occurred, and in permanent pasture, where the only noticeable increase occurred.

The CAP has not been in effect long enough to conclude that the changes occurring up to 1967 significantly reflect influence of the common policy and expectations of the future. Unified prices did not come into force for any products until mid-1967. In addition one would anticipate some lag in the adjustment process. The amount of land used for agricultural production will likely continue to decrease and thus act as a constraint on total agricultural output. However, opportunities for shifting to more land-intensive uses and the adoption of technology to increase yields will probably more than compensate for any reductions in area.

## THE EC MARKET FOR U.S. AGRICULTURAL PRODUCTS

### Community Agriculture and World Trade

The European Community not only is the world's largest importer of agricultural products but also is an important exporter. EC data, including that for intra-Community trade, show 1966 agricultural imports valued at \$14.8 billion and exports of a little over \$6.3 billion (tables 3 and 4). These are increases of 61 percent

TABLE 2.--Land use patterns in the Community, 1956-67

Year	Grains				Pulse	Root & tuber crops <sup>1</sup>	Indus- trial crops <sup>2</sup>	Hay crops	Permanent pasture	Fruits Vegeta- bles & other <sup>3</sup>	Total agricul- tural land
	Total	Wheat	Rice	Coarse grains							
	1,000 hectares <sup>4</sup>										
1956	21,167.1	8,868.9	146.1	12,152.1	972.0	5,849.3	510.9	9,799.1	26,147.0	8,407.2	72,850.5
1957	21,629.3	10,953.7	132.5	10,543.1	1,010.4	5,601.8	534.4	9,927.2	26,071.1	8,086.8	72,859.1
1958	21,552.0	10,910.5	143.6	10,497.9	975.3	5,571.6	533.9	10,145.4	25,951.4	8,164.7	72,892.2
1959	21,512.8	10,611.6	156.8	10,744.5	987.4	5,549.6	436.3	10,306.5	25,936.5	8,127.7	72,855.0
1960	21,347.8	10,492.2	138.9	10,716.7	978.4	5,548.1	423.8	10,407.1	25,866.2	8,180.0	72,749.3
1961	21,111.9	9,920.3	139.9	11,051.7	916.1	5,302.7	429.7	10,562.5	25,943.7	8,142.1	72,408.7
1962	21,445.0	10,614.0	130.3	10,700.6	865.7	5,199.5	478.0	10,401.1	25,923.6	8,032.5	72,345.5
1963	20,993.3	9,789.6	128.1	11,075.4	829.3	5,126.2	488.6	10,444.4	25,938.7	8,175.4	71,995.9
1964	21,064.9	10,441.5	130.5	10,493.3	767.3	4,807.7	527.3	10,239.7	26,074.0	8,204.7	71,685.5
1965	21,039.5	10,465.6	152.5	10,423.3	703.0	4,528.4	537.0	10,081.9	26,314.4	8,116.1	71,320.3
1966	20,761.5	9,869.6	157.8	10,734.1	675.6	4,282.1	525.8	10,144.9	26,503.3	8,167.1	71,060
1967 <sup>5</sup>	20,863.4	9,525.6	n.a.	n.a.	640.1	4,256.0	518.6	9,946.6	26,668.0	8,153.4	70,866

<sup>1</sup> Potatoes, sugarbeets, forage beets, other cultivated forage crops

<sup>2</sup> Rapeseed, other oilseeds, flax, hemp, tobacco, hops, etc.

<sup>3</sup> Includes olives, grapes, nurseries, etc.

<sup>4</sup> One hectare equals approximately 2.47 acres

<sup>5</sup> Preliminary

Source: Statistique Agricole, 1964-No. 8, 1966-No. 1, 1967-No. 3, 1968-No. 1, 1968-No. 8

TABLE 3.-EC imports of all agricultural products and products covered by the Common Agricultural Policy, 1958-66

Year	Intra-Community	From third countries	Total
<i>Million dollars</i>			
All agricultural products			
1958-60 avg.. . . . .	1,525.9	7,665.5	9,191.3
1961. . . . .	1,967.3	8,250.5	10,217.8
1962. . . . .	2,220.9	8,907.8	11,128.7
1963. . . . .	2,489.8	9,438.6	11,928.4
1964. . . . .	2,821.6	10,149.2	12,970.8
1965. . . . .	3,335.5	10,564.6	13,900.1
1966. . . . .	3,599.7	11,200.4	14,800.1
Products covered by the Common Agricultural Policy <sup>1</sup>			
1958-60 avg.. . . . .	785.5	2,081.6	2,867.1
1961. . . . .	985.0	2,240.5	3,225.5
1962. . . . .	1,095.7	2,559.6	3,655.3
1963. . . . .	1,270.7	2,509.2	3,779.9
1964. . . . .	1,472.5	2,723.8	4,196.3
1965. . . . .	1,823.4	3,025.6	4,849.0
1966. . . . .	1,922.5	3,154.2	5,076.7

<sup>1</sup> The product coverage is the same for all years and includes those products covered by the CAP in 1966. This includes products not subject to the variable levy, so the category is broader than that designated as variable-levy commodities in table 5.

Source: Statistique Agricole, 1967-No. 10

TABLE 4.-EC exports of all agricultural products and products covered by the Common Agricultural Policy, 1958-66

Year	Intra-Community	To third countries	Total
<i>Million dollars</i>			
All agricultural products			
1958-60 avg.. . . . .	1,504.6	1,973.5	3,478.1
1961. . . . .	1,965.3	2,223.1	4,188.4
1962. . . . .	2,199.7	2,250.4	4,450.1
1963. . . . .	2,480.2	2,448.5	4,928.7
1964. . . . .	2,778.7	2,627.7	5,406.4
1965. . . . .	3,337.5	2,806.8	6,144.3
1966. . . . .	3,509.6	2,839.3	6,348.9
Products covered by the Common Agricultural Policy <sup>1</sup>			
1958-60 avg.. . . . .	760.5	853.8	1,614.3
1961. . . . .	984.1	1,008.0	1,992.1
1962. . . . .	1,075.1	1,058.5	2,133.6
1963. . . . .	1,261.7	1,215.0	2,476.7
1964. . . . .	1,448.8	1,329.8	2,778.6
1965. . . . .	1,809.2	1,475.5	3,284.7
1966. . . . .	1,846.9	1,485.1	3,332.0

<sup>1</sup> The product coverage is the same for all years and includes those products covered by the CAP in 1966. This includes products not subject to the variable levy, so the category is broader than that designated as variable-levy commodities in Table 5.

Source: Statistique Agricole, 1967-No. 10

in imports and about 83 percent in exports over the 1958-60 averages.

Intra-Community trade has grown at a faster rate than trade with third countries. Imports from Community sources in 1966 were about 135 percent above the average for 1958-60 while imports from outside the area increased by 46 percent. Changes in exports followed a similar pattern. Third countries remained the major suppliers of agricultural products, and the value of imports from these sources increased by a greater absolute amount. However, the proportion of total agricultural imports purchased from third countries declined from about five-sixths to three-fourths. The relative importance of member country importers as markets for products of other member countries has increased. In 1958-60, less than half of member state agricultural exports went to other EC countries, but by 1966 this proportion had risen to slightly over 55 percent.

Trade in products covered by the CAP expanded at a more rapid rate than trade in all agricultural products from 1958-60 to 1966. The increase in imports of CAP products was only moderately above the increase for all agricultural products. Since intra-Community exports were approximately equal to intra-Community imports, a similar relationship held for this trade. However, exports of CAP products to third countries increased significantly more than exports of all agricultural products outside the area—74 percent as compared to 44 percent.

## U.S. Agricultural Exports to the EC

The European Community is the largest foreign market for U.S. farm products and for several years has accounted for nearly one-fourth of total U.S. agricultural exports. After 1958, U.S. agricultural exports to the EC increased annually, almost without interruption, to a peak of \$1,564 million in 1966 (Table 5). They then declined to \$1,367 million in 1968, or 13 percent below the peak, to the lowest level since 1963. Products subject to the variable levy accounted for 37 percent of the total in 1968. This was down from 42 percent in 1962 and just under the range of 38 to 43 percent for the intervening years.

The export value of products subject to the EC variable levies was \$504 million in 1968, down 24 percent from the record level in 1966 and only 4 percent higher than in 1962. Despite the variable levies, feed grain exports had increased substantially by 1966, indirectly reflecting increased Community demand for meat associated with rising incomes. In 1967 they dropped sharply, and they declined further in 1968. This



was largely a result of the significantly higher EC grain production in 1967 and 1968 due to record yields. Grain sorghum and barley exports have declined sharply in recent years. Corn exports declined more moderately in 1967 and recovered slightly in 1968. Exports of corn byproducts used for feed have continued to grow during the 1960's, reaching \$29 million in 1968.

The Community imports U.S. hard wheat each year to mix with domestic wheats for improved baking quality. However, the amount fluctuates widely because the United States is a residual supplier of wheat to the EC. U.S. exports increase whenever Community production falls and other third countries, primarily Argentina, cannot meet the import demand. After reaching a post-CAP high of \$106 million in 1966, exports have declined but have held above the early CAP years.

Rice exports from the United States to the EC were up sharply in 1967 and moved up further in 1968. During each of the past 3 years, export values have been substantially above earlier levels.

Both poultry and dairy product shipments to the Community have declined in recent years. Exports of poultry and eggs were only \$14 million in 1968, down \$39 million from the peak in 1962, and were at the lowest level since 1958. Exports of broilers and fryers declined the most. This decline was partially offset by increasing turkey exports until 1966, when they also began a decline which has continued. In 1964, shortages in the EC and export payments on butter and nonfat dry milk by the United States combined to boost dairy product sales to a record level. Now, with surpluses in the Community and U.S. export payments ended, purchases of U.S. dairy products have been drastically reduced.

U.S. exports of non-variable-levy commodities reached a record \$912 million in 1967, then declined 5

percent in 1968. Principal commodities included in this group are soybeans, oilcake and meal, tobacco, cotton, fruits, and vegetables. Increases for soybeans and oilcake and meal have been especially dramatic. Exports of soybeans in 1968 were down moderately from the previous year, but those of oilcake and meal continued the strong growth evident since the late 1950's. Tobacco sales were off in 1968 after setting a record in 1967, but they remained considerably above the levels of previous years. The largest decline among the major non-variable-levy commodities occurred for cotton. The downward trend was reversed briefly in 1967, but it continued again in 1968 to the lowest level in recent history.

Exports of fruits and preparations reached a high of \$77 million in 1965 and declined thereafter, particularly in 1968. Orange exports were down because of a short 1967/68 crop. Canned fruit exports continued the sharp decline started in 1966. Contributing to the latter may be the recently imposed variable levy on the sugar-added content, which threatens the future of U.S. canned fruit and vegetable exports to the EC.

Total U.S. agricultural exports to the European Community since the imposition of the variable import levies have been significantly above the levels in earlier years. Prosperity in the Community has stimulated demand sufficiently to more than offset the restrictive effects of the import system. After vigorous growth through 1966, U.S. exports declined substantially in 1967 and 1968. However, in 1968 they were still 18 percent above the 1961-63 average. Moreover, the recent declines are not entirely attributable to the CAP. Over the years, however, the impact of the CAP has been severe on some commodities. Developments in the past 2 years may suggest that the impact is spreading to enough commodities to jeopardize the overall value of exports.

## COMMODITY ANALYSES

### WHEAT AND COARSE GRAINS

#### The Common Agricultural Policy for Grains

The Community program for supporting prices and regulating trade in grains is contained in a series of regulations setting up a common market organization.<sup>4</sup> Except for rice, which is covered by separate regulations, all grains produced or imported into the Community are covered by these regulations. They also apply to flour and processed products made from grains.

#### Basic Features

The marketing year for grains extends from August 1 to the following July 31. For each marketing year a series of prices is established which serves as the primary mechanism for influencing and regulating production and trade. No production restriction is imposed.

The basic price for each of the important grains produced domestically is the target price. This is the wholesale price-level goal for the respective grains in Duisburg, Germany, designated as the main marketing center of the major deficit area in the EC. The target prices and other administratively determined prices are fixed for a standard quality for each grain. The

<sup>4</sup> Basic provisions are in Council Regulation No. 120/67, Journal Officiel No. 117, June 19, 1967.

TABLE 5.—U.S. agricultural exports to the EC: Value by commodity, 1956-68

Commodity	1956	1957	1958	1959	1960	1961	1962	1963	1964	1965	1966	1967	1968
	<i>1,000 dollars</i>												
Feed grains <sup>1</sup> . . . . .	158,997	105,916	157,541	241,295	197,146	186,046	317,082	275,256	325,972	471,771	476,441	373,631	336,501
Corn . . . . .	56,530	64,056	48,105	89,424	83,309	113,180	166,464	196,165	238,898	341,182	340,280	304,306	313,442
Grain sorghums . . . . .	35,227	13,731	37,109	60,337	53,545	48,141	63,308	51,087	61,988	86,525	82,330	44,434	16,539
Barley . . . . .	47,227	17,990	60,966	65,593	35,931	17,271	69,124	22,976	22,707	29,041	35,437	20,615	4,745
Oats . . . . .	20,013	10,139	11,361	25,941	24,361	7,454	18,186	5,028	2,379	15,023	18,394	4,276	1,775
Corn byproducts, feed . . . . .	11	44	223	2,145	981	809	3,443	6,824	7,894	15,802	19,310	18,839	28,664
Rice . . . . .	2,992	1,954	2,953	10,773	6,894	14,795	14,247	13,399	15,378	10,140	18,821	25,718	27,896
Rye grain . . . . .	10,324	6,203	2,416	5,714	3,695	5,739	18,709	13,700	5,676	1,463	4,418	4,321	1,486
Wheat grain . . . . .	177,106	91,479	51,474	44,657	46,322	173,011	50,603	63,365	59,228	67,674	105,990	95,058	82,989
Wheat flour . . . . .	7,079	7,218	11,218	8,467	7,253	6,862	5,553	3,200	1,662	1,207	1,357	1,398	972
Beef and veal, excl. variety meats . . . . .	82	44	40	18	38	49	64	163	1,064	1,511	647	567	530
Pork, excl. variety meats . . . . .	2,876	1,725	482	744	418	561	341	2,061	8,624	377	1,334	395	172
Lard <sup>2</sup> . . . . .	9,869	2,798	1,887	5,084	2,326	3,401	2,134	2,543	2,489	1,062	1,104	1,559	324
Dairy products . . . . .	25,274	11,438	2,502	10,162	2,997	2,084	3,603	22,551	54,398	30,473	1,213	1,234	928
Poultry and eggs . . . . .	2,577	2,589	3,633	19,235	28,551	45,835	53,479	30,613	31,676	30,747	23,600	18,533	14,362
Live poultry . . . . .	10	26	62	212	231	611	790	1,388	1,059	1,380	1,497	1,735	2,205
Broilers and fryers . . . . .	—	—	1,554	7,852	12,437	24,733	30,701	10,698	10,615	6,306	5,805	157	151
Stewing chickens . . . . .	—	—	660	3,247	5,242	8,642	8,347	6,092	6,384	2,710	759	2,495	1,143
Turkeys . . . . .	—	—	744	2,184	5,275	6,521	9,624	8,766	11,060	17,491	13,526	12,627	9,253
Other fresh poultry . . . . .	1,177	1,797	226	343	717	835	574	338	669	938	303	310	188
Eggs . . . . .	1,390	766	387	5,397	4,649	4,493	3,443	3,331	1,889	1,922	1,710	1,209	1,422
Other . . . . .	4,816	1,825	2,301	3,651	3,473	4,154	13,529	19,051	18,898	9,774	7,043	6,654	8,933
Total variable . . . . .	402,003	233,233	236,670	351,945	300,094	443,346	482,787	452,726	532,959	642,001	661,278	547,907	503,757
Canned poultry <sup>3</sup> . . . . .	1	25	190	1,733	1,143	1,974	1,080	1,997	3,902	3,325	2,352	2,263	971
Cotton, excl. linters . . . . .	218,273	358,275	197,359	104,468	312,891	232,897	105,973	131,557	189,143	70,258	65,890	71,848	56,471
Fruits and preparations . . . . .	57,280	59,634	59,762	44,414	45,880	56,751	66,732	64,539	61,010	77,340	66,279	64,524	45,233
Fresh fruits . . . . .	29,682	24,768	22,407	15,511	12,389	20,669	16,379	22,357	18,771	23,877	24,340	26,766	14,531
Citrus . . . . .	29,017	21,379	16,764	13,763	11,000	19,028	14,572	21,785	16,885	20,982	21,524	24,684	14,036
Oranges and tangerines . . . . .	21,528	13,604	4,193	7,846	3,811	8,364	6,557	7,309	5,475	9,945	10,213	12,867	2,085
Lemons and limes . . . . .	5,801	5,815	10,533	4,013	5,592	7,464	4,420	11,473	7,955	7,750	7,802	8,045	9,599
Grapefruits . . . . .	1,688	1,960	2,038	1,904	1,597	3,200	3,595	3,003	3,455	3,286	3,471	3,771	1,747
Other . . . . .	—	—	—	—	—	—	—	—	—	1	38	1	5
Deciduous: . . . . .	—	—	—	—	—	—	—	—	—	—	—	—	—
Apples . . . . .	590	1,715	5,398	657	1,251	925	1,324	128	1,280	1,842	2,050	1,169	18
Grapes . . . . .	9	29	13	26	22	30	6	10	14	115	157	391	110
Other . . . . .	66	1,645	232	1,065	9,754	686	477	434	592	938	609	522	367
Dried fruits . . . . .	9,171	10,180	9,874	6,623	9,754	7,744	8,425	8,245	8,067	11,428	8,080	9,178	6,832
Raisins . . . . .	2,736	1,227	1,207	1,318	2,085	1,679	1,143	1,933	1,261	1,656	1,433	1,718	1,720
Prunes . . . . .	5,071	5,322	5,595	3,594	6,774	4,761	5,874	5,244	5,535	8,608	5,840	6,974	4,828
Other . . . . .	1,364	3,631	3,072	1,711	895	1,304	1,408	1,068	1,271	1,164	807	486	284
Fruit juices . . . . .	5,337	6,285	9,873	4,183	5,874	7,424	8,914	6,583	3,677	4,447	2,740	8,754	8,644
Orange . . . . .	3,042	3,310	6,717	1,316	3,500	4,623	4,803	3,500	1,855	1,742	2,740	5,515	5,946





regulations provide that the target prices be set by the Council of Ministers at least 1 year in advance of the marketing year beginning August 1.

Since the target prices in the EC are substantially higher than world prices, it is necessary to protect the domestic market from imports being sold at a lower price. A threshold price, which is the minimum import price, is established for Rotterdam at a level to assure that imported grains may not be delivered to Duisburg at a price lower than the target price, taking into consideration quality differentials. Threshold prices are also established for cereals such as grain sorghum that move in international trade but are not normally produced in the Community. They are set at levels to prevent prices of these imported grains from undercutting competing EC domestic grains.

A standardized c.i.f.<sup>5</sup> price for each grain is calculated for Rotterdam on the basis of the most favorable purchase opportunities on the world market. Actual c.i.f. prices for the various classes and grades of each grain are adjusted by applying coefficients of equivalence to convert them to a basis comparable to the EC standard quality for which the threshold price is applicable. The lowest c.i.f. price for each grain after adjustment is subtracted from its threshold price to determine the levy. This levy is applied to all imports of that grain without regard to quality, actual offer price, port of entry, or final destination. In addition, threshold and c.i.f. prices are calculated for bread grain flours, and levies are directly determined from them. For other grain products, levies are calculated from the levies or duties applicable to imports of the base grains or other components plus a margin of protection for the domestic processing industry.

Even with protection from imports, prices received by farmers might fall below a minimum level consistent with the target price. To prevent this, intervention prices are established at the wholesale level. For each grain there is a basic intervention price, applicable in Duisburg, and regionally differentiated intervention prices valid in other Community marketing centers. These are set at levels that reflect the geographic price spreads to be expected with normal crops, considering the natural conditions of market price formation. There is an exception for corn where a single intervention price applies at all trading centers if the domestic corn normally marketed is less than 45 percent of consumption in the Community. The regional prices cannot exceed the basic intervention price. Intervention

agencies purchase grain at the intervention price valid at each designated trading center, subject to certain minimum conditions regarding quality and quantity. They are permitted to intervene at prices above the intervention prices if it appears that larger purchases will be necessary later if preventive purchases are not made.

Additional price support is provided for durum wheat by a guaranteed minimum price established for the marketing center of the principal surplus region. If this exceeds the intervention price for that center a subsidy equal to the difference is paid by intervention agencies for durum production. The subsidy is uniform for all Community producing areas.

Other activities of the intervention agencies include:

1. The granting of denaturing premiums for wheat to encourage its use for feed, and
2. The granting of transitional compensation to holders of yearend stocks of soft wheat, durum, barley, rye, and corn harvested in the Community not to exceed the difference between the target price for the last month of the old year and the target price for the first month of the new year.

Intervention agencies may sell grain acquired through support operations either for export to third countries or on the domestic markets. Procedures governing disposal are established by the Council. They may sell wheat and rye, suitable for making bread, for use as feed at reduced prices after these grains have been made unfit for human consumption through denaturing.

Annually determined target, threshold, and intervention price levels are valid at the beginning of the marketing year. The prices are increased at monthly intervals during the marketing season to encourage uniform marketing throughout the year. The standardized c.i.f. prices are calculated daily if changes in offer prices warrant. Thus, levies may vary daily—and hence the term variable levy.

Without special assistance, exports of grains and grain products would not be possible with domestic prices above world prices. Such assistance is provided in the form of export subsidies equal to the difference between world prices and EC prices. The subsidies are uniform for the whole Community, but are differentiated according to country of destination. Thus, there is provision for setting them high enough to make EC grain competitive in any individual national market in the world.

Licenses are required for all imports and exports of grains and grain products. They are valid for a specific period. A deposit of a surety is required from the importer or exporter to ensure the fulfillment of the obligation to carry out the transaction during the period.

<sup>5</sup> The term c.i.f. is an abbreviation for cost, insurance, and freight. It is the price of a commodity delivered at the point of entry into the importing country.



of validity of the license. The surety is fully or partially forfeited if the importation or exportation does not take place within this period. The import levy or export subsidy may be set at the time the licenses are issued rather than being determined when the transaction actually occurs.

The licenses are to be freely granted upon request. This is in accord with the stated principle that the levies and export subsidies are the exclusive regulators of trade with nonmember countries. Quantitative restrictions, for example, are prohibited. However, provisions authorize the Council to take "appropriate" temporary measures relative to trade with third countries if, due to imports or exports, the Community market is seriously disturbed or is threatened with serious disturbance.

Since the beginning of the 1967/68 marketing year the grain trade between member countries has been free of levies, except for trade in the principal feed grains between Italy and the other member states. At the time of the common grain price decision, Italy was authorized to collect a reduced levy on imports by sea of barley, oats, corn, and sorghum until the end of the 1971/72 marketing year. To maintain the advantage for Community suppliers Italy must pay a subsidy equal to the levy reduction on imports from other member states. A charge of an equal amount is collected on exports to its partners to prevent diversion of the lower priced imports to other areas of the Community.

#### Evolution of the CAP

The regulation providing for the gradual establishment of a common organization of the market for grains came into effect on July 30, 1962. It set up common trading rules for all Community members and envisioned a gradual harmonization of the different national prices during the transitional period to terminate on January 1, 1970. Member states annually set national target prices for each grain within a range established for the Community. Threshold and regionally differentiated intervention prices consistent with the target prices were adopted by each country. Import levies imposed by individual countries differed as a result of the separate threshold prices.

When the first grain regulation came into effect prices varied considerably among the individual member states. Prices were lowest for all grains in France and highest in Germany and Italy for wheat and in Germany for feed grains. During the transitional period the upper and lower limits for national target prices were to be gradually brought together to achieve a unified price by the end of the transitional period. Divergent national interests prevented meaningful progress toward this objective during the early years of the CAP, so in

December 1964 the EC decided to adopt unified prices to become effective on July 1, 1967. The following tabulation shows (1) the target price limits per metric ton (Dollars per bushel in parentheses) for wheat and barley for the first year under the CAP and for the year that the common price decision was made, and (2) the common prices adopted for the first 2 years of the unified market.

	<u>1962/63</u>	<u>1964/65</u>	<u>1967/68</u>	<u>1968/69</u>
<u>Wheat</u>				
Upper limit	\$118.92 (3.24)	\$118.92 (3.24)	--	--
Common price	--	--	\$106.25 (2.89)	\$106.25 (2.89)
Lower limit	89.42 (2.43)	89.42 (2.43)	--	--
<u>Barley</u>				
Upper limit	103.07 (2.24)	103.07 (2.24)	--	--
Common price	--	--	91.25 (1.99)	94.44 (2.06)
Lower limit	71.42 (1.55)	72.17 (1.57)	--	--

As long as prices differed among member states it was necessary to impose levies on grain moving into a member country with a higher price than the country of origin. A modest preference for intra-Community trade was built into the levy structure, giving some incentive for trade between member states. This was in the form of a "lump sum preference" of \$1.10 per metric ton on whole grains for most of the transitional period. The levies on grain from another member country were calculated so that its price was brought up to the threshold price for the importing country and then reduced by the amount of the preference.

When the common price system began in 1967, intra-Community levies were abolished except for the measures needed to permit the operation of the temporary feed grain levy reduction for Italy. Preferences enjoyed by Community producers vis-a-vis third country producers were greatly enhanced by virtue of their being permitted to compete in all member states on an equal basis. If regional intervention prices are set appropriately, grain sold at intervention prices in Community surplus areas should be able to move into at least some deficit areas at the intervention prices for those areas, whereas third country grain can only come in at or above the target price. The rather abrupt change in preferences with the implementation of the common price system makes it hazardous to infer that the changes in intra-Community trade during the transitional

period are indicative of the trade flow patterns to be expected when the common price system has been in operation long enough to have its full impact.

Since the Community produces a surplus of wheat and is deficit in feed grains, pressures arose to adjust the price ratios between wheat and feed grains to give greater incentive for feed grain production, even before the initially approved common prices took effect. Although they were not changed for the 1967/68 marketing year, the price ratio was narrowed for the 1968/69 marketing year by increasing the target prices for feed grains (table 6). Corn's target price was raised more than barley's.

TABLE 6.--EC: Common target prices for grains, 1967/68 and 1968/69

Commodity	1967/68		1968/69	
	Per m.t.	Per bu.	Per m.t.	Per bu.
	<i>U.S. dollars</i>			
Soft Wheat . . . . .	106.25	2.89	106.25	2.89
Durum Wheat . . . . .	125.00	3.40	125.00	3.40
Barley . . . . .	145.00	3.95	145.00	3.95
Corn . . . . .	91.25	1.99	94.44	2.06
Rye . . . . .	90.63	2.30	94.94	2.41
	93.75	2.38	97.50	2.48

<sup>1</sup> Guaranteed minimum price

Source: Newsletter on the Common Agricultural Policy, No. 16, December 1967

## Production and Consumption

The CAP for grains includes both trade and internal support measures which interact to produce the total impact on trade. Insulation of domestic producers from world markets resulting from the variable levy system prevents third country suppliers from competing in price on the domestic market. These suppliers are relegated to a position of filling the gap between domestic consumption and production to a greater extent than in most other importing countries. The high prices adopted provide incentives for producers to expand production unhindered by production controls and tend to dampen consumption increases. Thus, economic pressures exist for narrowing the gap. Important trade effects of the CAP may therefore come about indirectly via the effects on domestic production and to some extent on consumption.

### Changes in Producer Prices

Trends in prices received by producers in the various member states have, of course, been influenced by the relationships between the national price levels when the Common Market was formed. In general, where prices

were near the top of the range in the Community, they remained at approximately the same level until being forced downward when the common price came into force. In countries where grain prices were near the bottom of the range, they tended to move upward during the early years, except for France where producer prices did not increase substantially until 1966. After July 1, 1967, when common prices came into force, the national producer prices moved much closer together.

Price trends for wheat and barley, the EC's major grains, are illustrative of the annual price movements during the past decade.

**WHEAT PRICE CHANGES:** Wheat prices in 1958-68 are shown in figure 1. The EC price shown is an average of the country prices weighted by national production. The highest EC price during the 10 year period was in 1958. There was a substantial drop the following year, and an irregular upward movement in subsequent years. Prices in the member countries exhibited no strong trend from 1958 to 1965, except in the Netherlands where there was a general upward movement. Since 1965, there have been substantial price declines for wheat in Germany and Luxembourg, a rather modest reduction in Italy, and a significant increase in France. Thus, in France where the greatest potential is believed to exist for production expansion, only in recent years have producers had the incentive of higher prices.

The EC-wide average soft wheat producer price in 1967 was about \$98.50 per metric ton, or \$2.78 per bushel. This was considerably above the estimated \$1.92 per bushel average return (including Government payments) to wheat program participants in the United States during the 1967/68 marketing year. In comparing the two prices adjustment should be made for the higher quality of U.S. wheat. The International Grains Arrangement allows a 23 cent quality premium for U.S. Hard Red Winter Wheat over the EC Standard. Increasing the price differential by this quality premium indicates that Community prices exceed U.S. prices by more than \$1 per bushel.

**BARLEY PRICE CHANGES:** The EC average producer price for barley moved gradually upward after a slight decline in the early years of the 1958-68 period (figure 2). This reflects a modest upward trend until 1965 for all countries except France. Through 1967 German barley prices dropped rather sharply and Italian and Netherlands prices declined modestly. French barley prices were irregularly lower until 1964, but have since increased substantially. As with wheat, French barley producers have seen their prices increase only in recent years. They have probably not faced a rising price



# EC PRODUCER PRICES FOR SOFT WHEAT

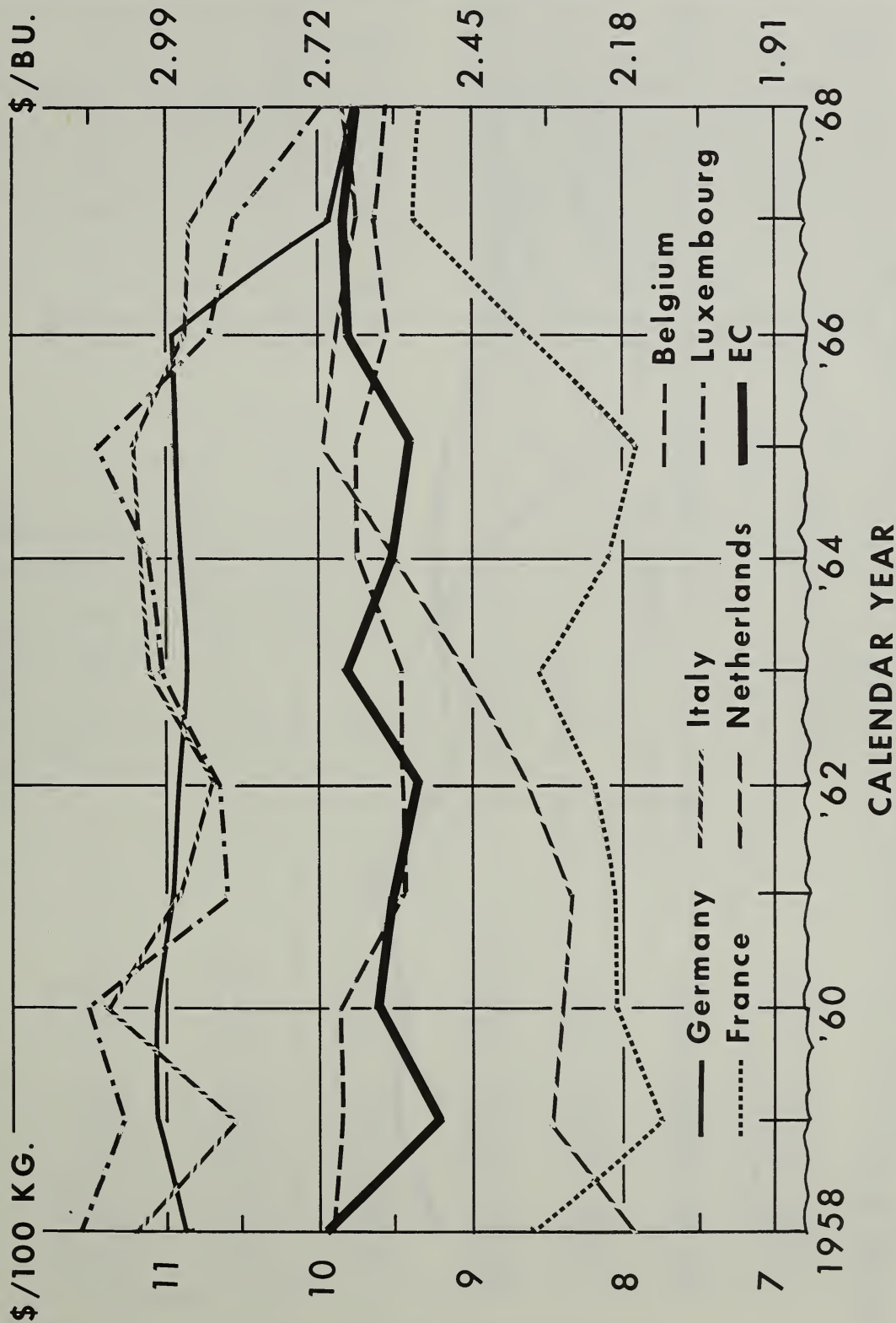
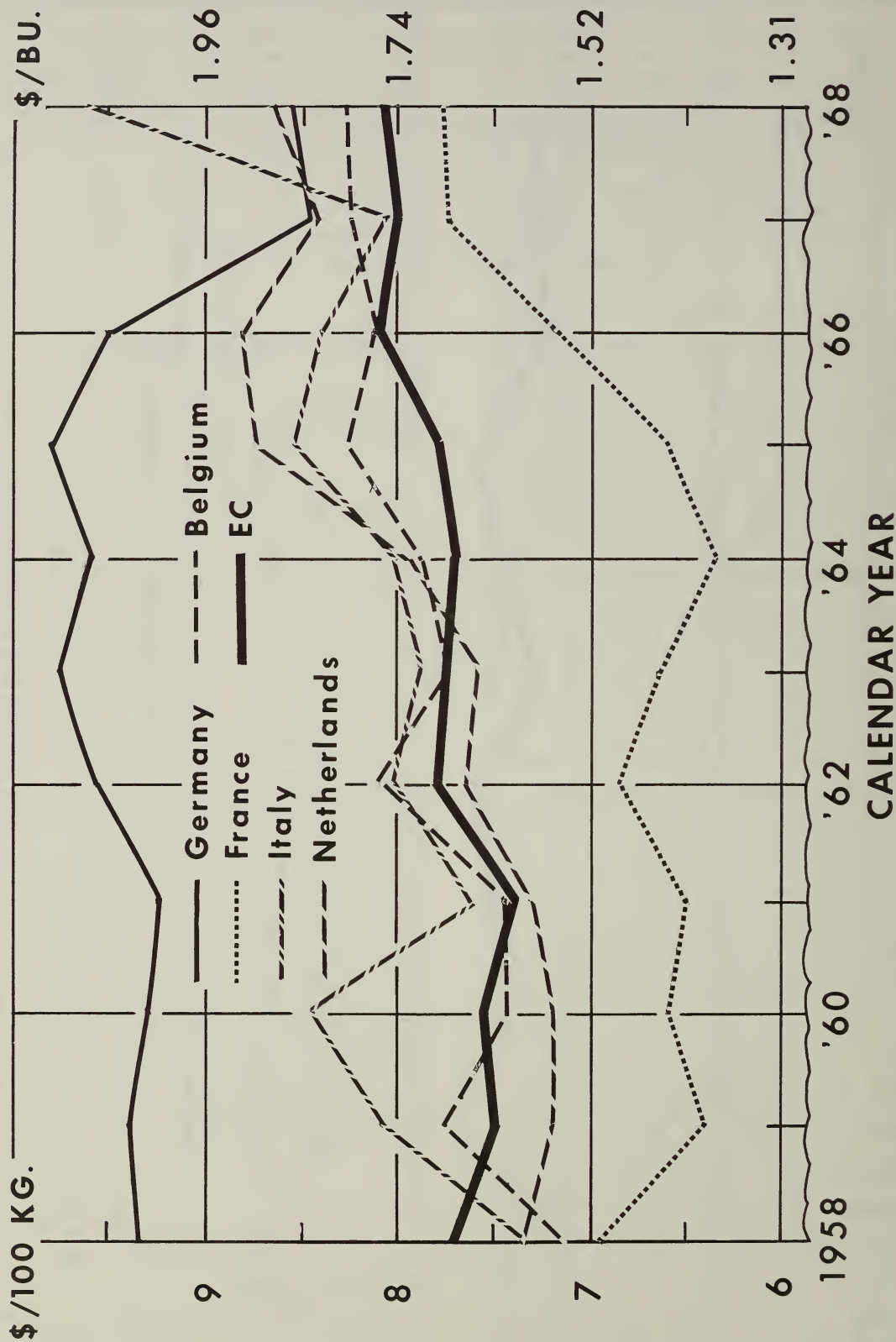


Figure 1

# EC PRODUCER PRICES FOR BARLEY



situation long enough to have fully adjusted their production patterns to the added incentives.

Producer prices for barley and other feed grains are much higher in the Community than they are in the United States. The average prices received by EC producers in 1967/68 were about \$80.50 per metric ton (\$1.75 per bushel) for barley and over \$84.00 per metric ton (\$2.13 per bushel) for corn. The 1967/68 season average prices for all producers in the United States were \$1.00 per bushel for barley and \$1.04 per bushel for corn. Support payments for corn raised the average return for program participants to \$1.24 per bushel.

The decision to increase barley, rye, and corn target prices for the 1968/69 marketing year made coarse grain production more attractive to EC producers who have a choice between wheat and coarse grains.

### Changes in Production and Consumption of Grain

The area of grains harvested in the Community has declined moderately over the past decade (table 7). Production has increased significantly, as yields per hectare have shown sizable gains. This is due mainly to improved varieties and tillage practices, but is also the result of a shift from lower yielding grains such as oats and rye to higher yielding grains such as corn and barley. Moreover, excellent weather conditions prevailed in the 1967 and 1968 crop years.

GRAIN AREA: The proportion of area in wheat and coarse grains has varied over the years, with some decline

in wheat area and a fairly stable acreage in coarse grains for the Community. However, there have been more pronounced changes in individual countries. In France, the area in grains has increased slightly: The wheat area has declined while the corn and barley areas have registered more than compensating increases. The reduction in wheat area has occurred mainly in marginal areas, with the main producing areas holding about constant. Increases in barley have taken place in France, except in the southern part. Expansion in corn area has been concentrated in the Paris basin. Some of the shift into feed grains has been encouraged by an increase in barley prices relative to wheat prices, but the increased area devoted to corn production has occurred despite a lower price relative to wheat. France's proportion of the total Community grain area has risen modestly over the past decade.

The area of grain harvested in Germany has remained almost constant during the past decade. There has been a general increase in barley acreage with a roughly offsetting decrease in the area in rye. Wheat acreage has increased moderately. Grain acreage in Italy has decreased markedly with over half of the decrease occurring in wheat area. Some drop in the area in grains has also occurred in the Benelux countries.

GRAIN YIELDS: High grain yields are common in the Community and can be attributed to the generally ample rainfall and to heavy applications of commercial fertilizers. Yields have continued to advance rather steadily during the past decade with some fluctuation

TABLE 7.--Area of grain harvested, by type of grain, EC, 1951-68

Year	Total	Wheat	Coarse grains					
			Total	Rye	Barley	Corn	Oats	Other
			1,000 hectares <sup>1</sup>					
1951-55 . . . . .	21,390	10,545	10,845	2,181	2,316	1,672	4,051	625
1956 . . . . .	21,442	9,070	12,372	2,178	3,553	1,919	3,999	723
1957 . . . . .	21,907	11,143	10,764	2,136	2,912	1,805	3,270	641
1958 . . . . .	21,845	11,128	10,717	2,135	3,070	1,813	3,034	665
1959 . . . . .	21,758	10,792	10,966	2,031	3,350	1,904	3,010	671
1960 . . . . .	21,587	10,665	10,922	1,896	3,467	2,018	2,855	686
1961 . . . . .	21,361	10,094	11,267	1,670	3,829	2,182	2,868	718
1962 . . . . .	21,713	10,809	10,904	1,538	3,762	2,000	2,834	770
1963 . . . . .	21,279	9,975	11,304	1,573	4,129	2,086	2,701	815
1964 . . . . .	21,346	10,632	10,714	1,568	3,934	1,983	2,467	762
1965 . . . . .	21,254	10,626	10,628	1,534	4,064	1,925	2,377	728
1966 . . . . .	20,981	10,037	10,944	1,372	4,401	1,981	2,434	756
1967 . . . . .	20,848	9,728	11,120	1,300	4,581	2,072	2,405	762
1968 <sup>2</sup> . . . . .	21,093	10,182	10,911	1,275	4,554	2,055	2,256	771

<sup>1</sup> One hectare equals approximately 2.47 acres

<sup>2</sup> Preliminary

Source: Statistique Agricole, 1966-No. 2, 1968-No. 5; Production Vegetale, 1968-No. 14



due to weather (table 8). The most abrupt change in yields occurred between 1966 and 1967. Unusually good weather in most of the Community resulted in record yields in 1967 for all grains except corn so that production increased substantially over the 1966 level. Data for 1968 show substantial increases in corn yields, with only a slight drop in yields of other grains, to make 1968 the second successive year with yields and production of all grains significantly above the trends of previous years. As in 1967 favorable weather apparently

was responsible for much of the higher yields. Even though yields have generally risen, there is still an appreciable gap between regions with the more advanced technology and other regions, suggesting that future yields may rise considerably in some areas of the EC.

**GRAIN PRODUCTION:** Total grain production continues to increase as higher yields have been obtained from a fairly stable acreage base (table 9). More wheat, barley, and corn are being produced. Rye production is

TABLE 8.-Average yield per hectare of grain, by type of grain, EC, 1951-68

Year	Total	Wheat	Coarse grains					
			Total	Rye	Barley	Corn	Oats	Other
			100 kilograms <sup>1</sup>					
1951-55 . . . . .	20.5	20.2	20.7	21.7	21.1	22.6	19.1	20.4
1956 . . . . .	22.8	20.7	24.3	23.0	27.0	27.0	21.5	23.0
1957 . . . . .	22.6	22.1	23.1	23.7	24.2	27.2	19.6	23.3
1958 . . . . .	22.8	21.9	23.7	23.1	23.6	29.6	20.8	23.6
1959 . . . . .	24.4	24.0	24.8	24.8	26.1	30.0	20.5	22.6
1960 . . . . .	24.9	22.7	27.0	26.2	28.4	32.9	21.8	26.5
1961 . . . . .	23.4	23.0	23.7	20.3	24.1	29.5	20.9	23.6
1962 . . . . .	26.8	27.4	26.2	25.2	29.2	25.9	22.9	26.7
1963 . . . . .	26.9	24.6	28.8	26.2	29.3	36.5	24.5	26.1
1964 . . . . .	28.1	27.5	28.6	29.2	30.2	30.9	23.9	28.0
1965 . . . . .	28.5	28.7	28.3	23.8	29.4	35.5	24.4	26.1
1966 . . . . .	27.9	26.4	29.2	24.8	28.4	40.2	25.0	27.0
1967 <sup>2</sup> . . . . .	32.9	32.2	33.5	30.2	35.0	39.6	28.6	30.0
1968 <sup>2</sup> . . . . .	33.0	31.6	34.4	30.8	33.6	45.8	28.6	31.4

<sup>1</sup> One kilogram equals 2.2046 pounds

<sup>2</sup> Preliminary

Source: Same as table 7

TABLE 9.-Production of grains, by type of grain, EC, 1951-68

Year	Total	Wheat	Coarse Grains					
			Total	Rye	Barley	Corn	Oats	Other
	1,000 metric tons <sup>1</sup>							
1951-55 . . . . .	43,751	21,340	22,411	4,732	4,884	3,773	7,747	1,275
1956 . . . . .	48,868	18,799	30,069	5,020	9,595	5,184	8,606	1,664
1957 . . . . .	49,539	24,632	24,907	5,067	7,037	4,913	6,399	1,491
1958 . . . . .	49,796	24,379	25,417	4,928	7,258	5,363	6,301	1,567
1959 . . . . .	53,058	25,885	27,173	5,030	8,736	5,720	6,173	1,514
1960 . . . . .	53,712	24,201	29,511	4,963	9,860	6,648	6,221	1,819
1961 . . . . .	49,917	23,176	26,741	3,382	9,227	6,433	6,004	1,695
1962 . . . . .	58,212	29,632	28,580	3,875	10,985	5,174	6,487	2,059
1963 . . . . .	57,164	24,582	32,582	4,117	12,116	7,613	6,608	2,128
1964 . . . . .	59,911	29,289	30,622	4,582	11,869	6,127	5,907	2,137
1965 . . . . .	60,610	30,485	30,125	3,653	11,950	6,835	5,789	1,898
1966 . . . . .	58,500	26,526	31,974	3,407	12,482	7,970	6,076	2,039
1967 . . . . .	68,628	31,332	37,296	3,928	16,019	8,198	6,867	2,284
1968 <sup>2</sup> . . . . .	69,708	32,185	37,523	3,926	15,310	9,406	6,460	2,421

<sup>1</sup> One metric ton equals 2204.6 pounds

<sup>2</sup> Preliminary

Source: Same as table 7

declining as is that of oats. An increasing proportion of Community grain is being produced in France as a result of the more rapid increase in yields and the modest growth in its share of the Common Market grain area. During the middle and late 1950's the French share of total grain production was usually under 40 percent, but it increased to about 47 percent in 1967 and 1968. Somewhat over one-fourth of the Community's grain is produced in Germany and a little over one-fifth in Italy.

Yields are highest in the northern EC. This is partially due to differences in climate and soils, but may also be a reflection of the progressiveness of the farmers. The Benelux countries have consistently had higher yields, followed by Germany, France, and Italy. However, during the past decade France has had the largest yield increases.

**UTILIZATION OF GRAIN:** While production of wheat in the EC has been rising in recent years, total consumption of wheat has increased at a more moderate rate. Consumption for food has held about even, but use for feed and export has increased. Although wheat production has exceeded Community consumption requirements for a number of years, the wheat produced is primarily soft wheat, leaving an import requirement for high quality hard wheat for mixing purposes to derive the desired type of flour. Much of the wheat fed is used on farms where it is produced, although there has been some denaturing of wheat under government programs.

Recent increases in denaturing premiums are expected to encourage expanded use of wheat for feed. Coarse grain production has also been increasing, but unlike the situation for wheat, consumption expanded more rapidly up through the 1966/67 marketing year. Most coarse grains are used for feed, where major expansion has occurred. There has also been some expansion in industrial uses for grain.

Official supply-utilization data for 1967/68 are not available, but from data on production and indications on utilization, the increasing trend in the coarse grain deficit was clearly reversed in 1967/68, and the deficit will likely decline further in 1968/69. The importance of the higher yields in 1967 and 1968 as a factor in this reverse leads to considerable uncertainty about future trends. Yields for these years were substantially above prior levels. Favorable weather was a major factor, but other forces may also have contributed. Higher yields for 2 successive years, coinciding with the introduction of the unified market, suggest caution in assuming that yields will drop back and resume a more "normal" growth pattern.

Because of the possibility for substitution between wheat and coarse grains, it is useful to look at the

supply-utilization of all grains. During the past 10 years, production and consumption have expanded in a parallel fashion. The net deficit has not changed greatly, but total trade has increased, with both exports and imports of the Community moving up significantly. With total exports of nearly 10 million tons and imports of close to 20 million tons, there would appear to be considerable possibility for diversion of grain currently exported toward filling Community requirements and thus significantly reducing gross imports into the EC.

#### Projections on Grain Production and Consumption

A study by Michigan State University concludes that recent grain production and consumption trends will continue into the 1970's.<sup>6</sup> The proportion of land planted to grains is considered to be the most uncertain factor affecting future grain production, as expressed by the concern in some quarters that higher grain prices in several countries would induce the plowing up of pasture for grain. However, the researchers do not anticipate significant increases in acreages devoted to grain if relationships between prices of grain and forage-consuming livestock remain similar to those resulting from recent price decisions. On the contrary, they project a modest decline in the total grain area. This is expected to come about by contraction in the hilly areas of southern Germany, central France, and in central and southern Italy. Only partially offsetting will be some expansion in areas where mechanization is more feasible.

Acreage in wheat will probably continue to decline slowly, although the change probably will not occur uniformly. In the highest yielding regions of the EC, wheat acreage is expected to remain stable or expand, but it is expected to contract in regions having lower yields. This shift will lead to higher average yields for wheat and reinforce the yield increases resulting from improved technology. Similar trends will probably occur for coarse grains. In addition, shifts to higher yielding grains such as barley and corn will contribute toward higher average yields for coarse grains.

Grain yields are expected to increase throughout the EC at a rate sufficient to increase production despite acreage reductions. Factors working toward higher yields are (1) continued improvements in seed varieties and cultural practices, (2) increased fertilizer use, (3) continued expansion of farms controlled by more progressive managers, and (4) increased crop specialization by farm and by area as the adoption of common price

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<sup>6</sup> Sorenson, Vernon L., and Hathaway, Dale E. The Grain-Livestock Economy and Trade Patterns of the European Economic Community with Projections to 1970 and 1975. Institute of International Agriculture, Michigan State University, Research Report No. 5, August 1968.



TABLE 10.- Production and utilization of wheat, EC, 1956-67

Year ending June 30	Production	Change in stocks	Exports <sup>1</sup>	Imports <sup>1</sup>	Available supply or total consumption	Food consumption	Feed consumption	Other uses <sup>2</sup>
<i>1,000 metric tons</i>								
1956.....	24,328	+ 750	2,423	4,651	25,806	20,128	3,350	2,328
1957.....	18,730	+ 672	1,220	6,915	23,753	19,661	1,935	2,157
1958.....	24,559	- 844	3,152	3,899	26,150	20,018	3,954	2,178
1959.....	24,316	- 258	2,117	4,164	26,621	20,045	4,455	2,121
1960.....	25,814	- 660	2,286	3,377	27,565	19,835	5,472	2,258
1961.....	24,137	+1,097	1,799	5,888	27,129	20,123	4,886	2,120
1962.....	23,060	- 193	2,323	5,870	26,800	20,183	4,484	2,133
1963.....	29,495	+1,814	3,786	3,478	27,373	20,080	5,074	2,219
1964.....	24,445	-2,021	3,794	4,111	26,783	20,029	4,658	2,096
1965.....	29,158	- 554	5,669	3,548	27,591	19,942	5,525	2,124
1966.....	30,369	+1,167	5,838	4,245	27,609	20,247	5,346	2,016
1967.....	26,309	-1,308	4,479	4,280	27,418	19,902	5,540	1,976

<sup>1</sup> Excludes intra-EC trade<sup>2</sup> Includes industrial uses, seed, and waste

Source: Statistique Agricole, 1968-No. 1

TABLE 11.- Production and utilization of coarse grains, EC, 1956-67

Year ending June 30	Production	Change in stocks	Exports <sup>1</sup>	Imports <sup>1</sup>	Available supply or total consumption	Food consumption	Feed consumption	Other uses <sup>2</sup>
<i>1,000 metric tons</i>								
1956.....	23,649	- 185	883	6,729	29,680	3,015	22,527	4,138
1957.....	29,778	+1,268	1,326	6,863	34,047	2,956	26,998	4,093
1958.....	24,624	-1,056	268	6,634	32,046	2,862	24,977	4,207
1959.....	25,130	+ 450	495	8,036	32,221	2,765	25,147	4,309
1960.....	26,887	+1,378	699	9,685	34,495	2,678	27,261	4,556
1961.....	29,206	+ 92	1,469	7,915	35,560	2,608	28,411	4,541
1962.....	26,495	- 869	1,416	11,257	37,205	2,504	29,869	4,832
1963.....	28,261	+ 545	1,690	11,650	37,676	2,418	30,224	5,034
1964.....	32,256	+ 555	3,568	12,762	40,895	2,243	33,468	5,184
1965.....	30,274	- 909	3,575	12,993	40,601	2,204	32,989	5,408
1966.....	29,837	+ 209	3,736	16,214	42,106	2,230	34,107	5,769
1967.....	31,675	- 180	3,592	15,683	43,946	2,145	35,872	5,929

<sup>1</sup> Excludes intra-EC trade<sup>2</sup> Includes industrial uses, seed, and waste

Source: Statistique Agricole, 1968-No. 1

policies allows the principle of comparative advantage to operate more fully over the entire area.

Wheat production is projected to increase at a slower rate than total grain output. Among the faster growing coarse grains, barley and corn are both expected to make up an increasing portion of the total with oats, rye, and other grains expected to decline in both absolute and relative terms.

Consumption projections indicate a modest decline in the use of grains for food, but a relatively rapid increase in their use for feed. With continued income growth in

the Community, meat demand is also likely to continue expanding, although at a slower rate than in recent years. The great dependence of Community beef production on forage, which is affected by the land constraints limits expansion in domestic beef output. However, the increasing production efficiencies being attained for pork and poultry favor expansion in their output.

Pork production between 1964 and 1975 is projected to increase by 40 percent, poultry meat by about 8 percent, and egg production by nearly 40 percent. Improved feed conversion rates will tend to prevent



TABLE 12.--Production and utilization of all grains, EC, 1956-67

Year ending June 30	Production	Change in stocks	Exports <sup>1</sup>	Imports <sup>1</sup>	Available supply or total consumption	Food consumption	Feed consumption	Other uses <sup>2</sup>
<i>1,000 metric tons</i>								
1956.....	47,977	+ 565	3,306	11,380	55,486	23,143	25,877	6,466
1957.....	48,508	+1,940	2,546	13,778	57,800	22,617	28,933	6,250
1958.....	49,183	-1,900	3,420	10,533	58,196	22,880	28,931	6,385
1959.....	49,446	+ 192	2,612	12,200	58,842	22,810	29,602	6,430
1960.....	52,701	+ 718	2,985	13,062	62,060	22,513	32,733	6,814
1961.....	53,343	+1,189	3,268	13,803	62,689	22,731	33,297	6,661
1962.....	49,555	-1,062	3,739	17,127	64,005	22,687	34,353	6,965
1963.....	57,756	+2,359	5,476	15,128	65,049	22,498	35,298	7,253
1964.....	56,701	-1,466	7,362	16,873	67,678	22,272	38,126	7,280
1965.....	59,432	-1,463	9,244	16,541	68,192	22,146	38,514	7,532
1966.....	60,206	+1,376	9,574	20,459	69,715	22,477	39,453	7,785
1967.....	57,984	-1,488	8,071	19,963	71,364	22,047	41,412	7,905

<sup>1</sup> Excludes intra-EC trade<sup>2</sup> Includes industrial uses, seed, and waste

Source: Statistique Agricole, 1968-No. 1

grain requirements for each type of production from expanding at the same rate. On the other hand some nongrain feeds such as potatoes will become less important in hog rations, but others which can be easily incorporated into mixed feeds may be used to a greater extent in both hog and poultry feed. Nevertheless, substantial increases in grain requirements are expected for hogs and poultry.

An EC policy objective is to expand beef output without aggravating the surplus situation in dairy products. Achievement will be difficult because of the joint-product nature of dairy and beef production in much of the Community. One approach being encouraged is to grow out a larger proportion of calves to heavier weights, thus obtaining more beef without increasing cow numbers. Another approach might be the development of specialized cattle feeding operations similar to those in the United States. Both involve increased use of grain. The latter approach would require more cattle to be put on feed.

Potential for producing feeder cattle in the Community appears limited, as farm size and growing conditions in most areas do not make specialized beef cow herds a profitable alternative to the present system. Moreover there are no obvious non-Community sources of significant numbers of feeder cattle. There is also a question of the economics of heavy grain feeding under existing price relationships. Although cattle prices have risen appreciably in recent years, current prices of around \$30 per 100 pounds are probably not high enough to make high grain rations profitable considering the level of EC grain prices. General consumer pre-

ference for leaner type beef in the EC appears to rule out price premiums for grainfed cattle.

Despite these obstacles, efforts to expand beef production will undoubtedly continue. The alternatives appear to be to adopt husbandry practices that involve maximum utilization of grain, consistent with beef-grain price relationships, or to increase pasture and forage production, partly by diverting land from other crops, including grains. Either action will tend to increase import requirements for feed grains.

Existing milk-grain price ratios will probably discourage greatly expanded grain feeding for dairy production. With a milk target price of about \$4.50 per 100 pounds and farmers' feed grain prices between \$3.50 and \$4.50 per 100 pounds, there does not appear to be much incentive to use more grain to produce milk.

## Foreign Trade

### Barriers to Imports

Community grain producers are protected from outside competition by the variable levy system. Levies are assessed on all imports from nonmember countries to bring their prices up to or above the threshold price. Other protective measures, such as quantitative restrictions, are prohibited, although the Council retains authority to make exceptions.

The levy is uniform for each grain throughout the Community except for the temporary reduction on coarse grain imports into Italy. The levy is subject to daily variation to compensate for changes in offer prices

and maintain the levy-paid prices at or above the threshold price level. Unlike a fixed duty, which maintains a constant absolute or percentage margin of protection, the variable levy insulates the internal price from changes in offer prices, and producers in non-member countries are prevented from competing in the EC on a price basis.

This insulation is one aspect of the protection accorded to Community producers by the variable levy

TABLE 13.-Average EC levies for selected grains  
July 1967-July 1968

Commodity	Threshold price <sup>1</sup>	Adjusted c.i.f. price <sup>2</sup>	Levy <sup>1</sup>	Ad valorem equiv. <sup>3</sup>
	<i>Dollars per metric ton</i>		<i>Percent</i>	
Wheat.....	109.13	57.24	51.89	91
Barley.....	92.00	56.63	35.37	62
Corn.....	91.38	55.22	36.16	65
Grain sorghum	88.44	54.95	33.49	61

<sup>1</sup> Threshold prices and levies are unweighted averages for 13-month marketing year. Thus, they are only approximate but give an indication of their relative magnitude. Extra month in marketing year results from change from July-June period used previously to August-July period adopted in regulation for unified market.

<sup>2</sup> Calculated from Community data on average threshold prices and levies

<sup>3</sup> Ad valorem equivalent calculated by dividing the levy by the adjusted c.i.f. price

Source: Marchés Agricoles-Prix, Produits Vegetaux, No. 13, September 10, 1968

system. A more apparent and measurable aspect of the systems protectiveness is the amount by which Community prices exceed those at which grains can be purchased on the world market. As shown in table 13, levies during the 1967/68 marketing year averaged approximately 90 percent of offer prices for wheat and over 60 percent for feed grains. These are very large margins of protection when compared with import charges on most products important in international trade. Despite these high barriers to grain imports, the Community remains a very important market for the U.S. and other grain exporters.

#### U.S. Stake in the Common Market

Table 14 shows the importance of the Community as a market for U.S. grain exports as well as the importance of grains in EC agricultural imports from the United States. Nearly 35 percent of U.S. commercial grain exports in 1965-67 went to the Community. Also U.S. grain shipments to the Community in these years accounted for nearly 11 percent of all U.S. commercial agricultural exports.

Of the grains, corn is by far the most important U.S. export to the Community, followed by wheat, then "other" feed grains (mostly grain sorghum), and barley. The year-to-year changes in Community imports from the United States of these commodities over the past 8 years are indicated in figure 3.

TABLE 14.-Value of U.S. exports of selected grains and all farm commodities and the relative importance of the EC as a market for U.S. grains, 1965-67 average

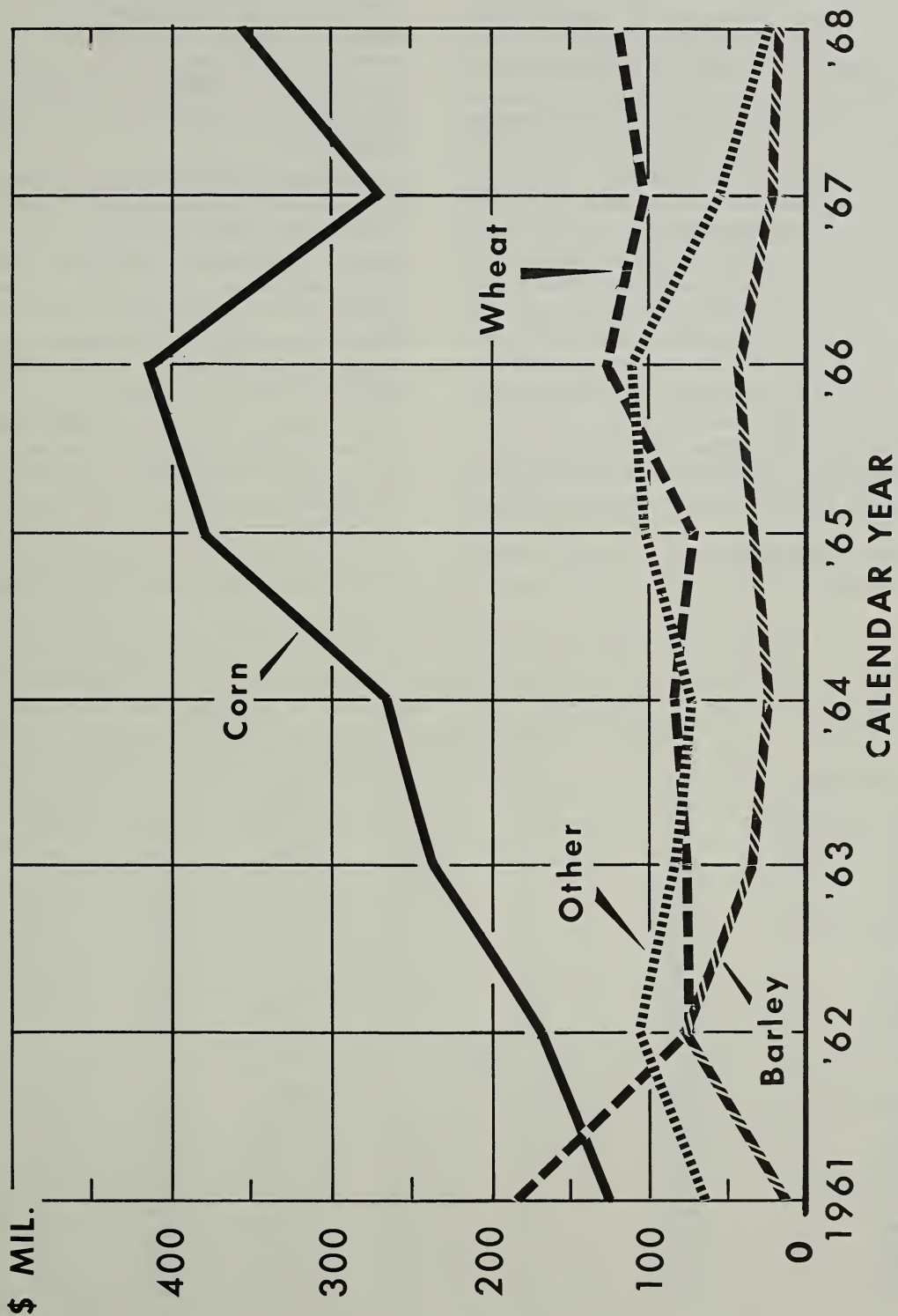
Commodity	Value of U.S. Exports to:			Exports to the Community as a share of exports to:		Relative importance of each grain in U.S. farm exports to EC <sup>2</sup>
	World	Commercial Markets <sup>1</sup>		World (Col. 3÷Col. 1)	Commercial markets (Col. 3÷Col. 2)	
		Total	European Community			
	(1)	(2)	(3)	(4)	(5)	(6)
		<i>Million dollars</i>			<i>Percent</i>	<i>Percent</i>
Wheat.....	1,193	481	90	7.6	18.7	6.0
Wheat flour.....	116	39	3	2.6	7.7	.2
Total.....	1,309	520	93	7.1	17.9	6.2
Barley.....	67	64	29	43.3	45.3	1.9
Corn.....	804	744	330	41.0	44.3	21.9
Other feed grains.....	309	223	87	28.2	39.0	5.8
Total.....	1,180	1,031	446	37.8	43.3	29.6
All grains <sup>3</sup> .....	2,489	1,551	539	21.7	34.8	35.7
All farm commodities. . .	6,553	4,951	1,509	23.0	30.4	100.0

<sup>1</sup> Value of exports outside Government programs

<sup>2</sup> Value of each grain exported to the Community (Col. 3) as a percentage of the value of all farm commodities exported to the Community

<sup>3</sup> Excludes rice

# EC GRAIN IMPORTS FROM UNITED STATES



U.S. DEPARTMENT OF AGRICULTURE  
NEG. ERS 6962-69 (7) ECONOMIC RESEARCH SERVICE

Figure 3



## Sources of Community Imports

WHEAT: EC members in 1965-67 obtained 78 percent, or \$283 million, of their imported wheat from nonmember nations (see table 15). Canada, United States, and Argentina are the primary sources supplying over 70 percent of the imports. The USSR and Australia were significant suppliers in the early 1960's but exported only a very small quantity to the Community in 1965-67.

EC consumption of wheat changed very little in 1961-67 while production increased. This resulted in a higher degree of self-sufficiency, and imports from outside the EC moved downward generally during these years, although there were some increases. Even with an increase in self-sufficiency, the value of imports from Argentina increased, although at a much lower rate than the 144 percent increase in intra-Community trade.

The rate of decline in imports from the United States was very close to the rate of decline of EC wheat imports from all sources. Thus, the U.S. market share in 1965-67 was little different from that in 1961-63. Hit hard were the USSR and Australia and, to some extent, Canada.

The most noteworthy change in intra-Community trade for wheat in the last 7 years was the increase in

Italian imports from France. This trade jumped from practically nothing in 1961-63 to an annual average of \$30 million in 1965-67, reaching \$40 million in 1965. During this period France replaced the United States as Italy's major supplier. Italy obtained 34 percent of its wheat imports from the United States in 1961-63 versus only 7 percent in 1965-67. Italy increased the proportion coming from France from 0.1 percent to 30 percent.

Loss of the Italian market to France was partly offset by increased U.S. wheat exports to France itself, and to a lesser extent, Germany. France increased its wheat imports from the United States since it produces and exports a soft wheat yet requires hard wheat for milling purposes, part of which it imports from the United States. The EC was unified for grains on July 1, 1967. Changes made at that time are much more likely to affect trade than were changes during the transitional period. Average trade data for 1965-67 cover only 12 months under the unified market, so they would reflect only to a small degree changes occurring after unification. U.S. wheat exports to the EC in 1967 were down from 1966, but were above any other year since 1961. For other supplier nations outside the Community there was no sharp change in 1967 from previous trends. O

TABLE 15.—Value of EC, wheat imports, by source of imports, and market share for each source

Country	Average value		Change	7-year low		7-year high	
	1961-63	1965-67					
Value imported from:	<i>Mil. dol.</i>	<i>Mil. dol.</i>	<i>Pct.</i>	<i>Mil. dol.</i>	<i>Year</i>	<i>Mil. dol.</i>	<i>Year</i>
World.....	399.9	363.9	-9.0	300.7	1963	502.5	1961
United States.....	111.7	101.2	-9.4	73.2	1965	184.8	1961
EC.....	32.8	80.2	144.1	30.5	1962	84.8	1965
France.....	28.4	71.0	150.1	25.6	1962	80.6	1965
EFTA.....	11.9	4.2	-65.0	1.3	1966	13.8	1963
Eastern Europe.....	24.9	5.8	-76.7	<sup>1</sup> ---	1964	39.5	1961
USSR.....	24.1	3.5	-85.6	<sup>1</sup> ---	<sup>2</sup> 1964	37.8	1961
Canada.....	130.3	102.9	-21.0	97.8	1964	155.4	1961
Australia.....	26.0	3.4	-87.0	<sup>1</sup> ---	1966	46.9	1961
Argentina.....	46.6	55.8	19.7	22.6	1961	81.9	1965
All Others.....	15.5	10.5	-32.7	3.8	1965	30.6	1962
Share imported from:	<i>Percent</i>			<i>Year</i>	<i>Percent</i>	<i>Year</i>	
World.....	100.0	100.0	---	---	---	---	---
United States.....	27.9	27.8	-5	19.3	1962	36.8	1961
EC.....	8.2	22.0	168.2	6.7	1961	23.9	1965
France.....	7.1	19.5	174.8	5.9	1961	22.7	1965
EFTA.....	3.0	1.1	-61.5	.3	1966	4.6	1963
Eastern Europe.....	6.2	1.6	-74.4	<sup>1</sup> ---	1964	7.9	1961
USSR.....	6.0	1.0	-84.1	<sup>1</sup> ---	<sup>2</sup> 1964	7.5	1961
Canada.....	32.6	28.3	-13.2	26.8	1967	37.3	1963
Australia.....	6.5	.9	-85.7	<sup>1</sup> ---	1966	9.3	1961
Argentina.....	11.7	15.3	31.5	4.5	1961	23.1	1965
All Others.....	3.9	2.9	-26.0	1.1	1965	7.7	1962

<sup>1</sup> Less than \$50,000 or 0.05 percent

<sup>2</sup> First of two or more years at this value

course, even the changes in 1967 are not sufficient to indicate the full effects of the unification of the market and the high prices that became effective at the time; 1968 was the first full calendar year under the unified market, and it will take time for economic forces to adjust to the institutional changes.

The United States can expect increased production of wheat in the Community if past trends continue. Production increases between 1961 and 1967 appear to be a continuation of trends established in prior periods and do not seem to be attributable to the EC's price changes. Production increases, along with the unification of the market, will reduce the Community's need to import wheat from nonmembers, but some factors will be partly offsetting. For example, Italy's new pasta law, which became effective at the beginning of 1968, requires 100 percent durum semolina to be used in all pasta products. Italy does not now raise enough durum wheat to supply its requirements, and imports of U.S. durum wheat probably increased in 1968, and may remain upward for several years. In addition, all member countries, including France, need to import hard wheat, partially from the United States, for milling purposes.

CORN: Imports of corn by the Community grew rapidly in recent years as livestock production increased to satisfy the growing meat demand. Largest corn suppliers outside the Community in recent years were the United States and Argentina (table 16). Romania and South Africa in 1961-63 were also significant suppliers. Within the Community, France is the major supplier, and its importance is growing. However, its growth has not reduced the relative importance of the United States. Indeed, the U.S. market share increased moderately between 1961-63 and 1965-67. This improvement was due partly to Community regulations that ended the Italian licensing preference on corn imports from Argentina and South Africa. The market share for both of these countries dropped in 1965-67, especially for South Africa, which had poor crops in 1965 and 1966.

Of great interest, however, were the events of 1967. From 1961 to 1966, EC corn imports from all sources increased very rapidly, nearly \$100 million annually. From a peak in 1966 these imports dropped 15 percent in 1967. Imports from the United States increased from 1961 through 1966 at a slightly faster rate. In 1967,

TABLE 16.-Value of EC corn imports, by source of imports, and market share for each source

Country	Average value		Change	7-year low		7-year high	
	1961-63	1965-67					
Value imported from:	<i>Mil. dol.</i>	<i>Mil. dol.</i>	<i>Pct.</i>	<i>Mil. dol.</i>	<i>Year</i>	<i>Mil. dol.</i>	<i>Year</i>
World.....	387.3	712.6	84.0	280.5	1961	764.9	1966
United States.....	175.9	354.2	101.4	122.1	1961	412.9	1966
EC.....	19.3	92.9	381.7	5.8	1962	103.1	1965
France.....	16.0	66.1	314.4	5.2	1962	82.6	1966
Italy.....	2.8	25.4	795.8	<sup>1</sup> ---	1961	59.4	1965
Eastern Europe.....	29.0	32.6	12.7	9.9	1966	58.7	1967
Romania.....	20.2	15.1	-25.2	3.8	1966	27.1	1964
Union S. Africa.....	33.3	5.2	-84.5	1.6	1966	41.2	1962
Brazil.....	6.6	23.6	257.9	<sup>1</sup> ---	1962	39.9	1966
Argentina.....	112.9	178.3	57.9	81.5	1961	189.6	1966
All Others.....	10.4	25.8	148.1	7.6	1961	49.7	1967
Value imported from:	<i>Percent</i>			<i>Year</i>	<i>Percent</i>	<i>Year</i>	
World.....	100.0	100.0	---	---	---	---	---
United States.....	45.4	49.7	9.4	41.8	1967	54.0	1966
EC.....	5.0	13.0	161.8	1.5	1962	14.2	1965
France.....	4.1	9.3	125.2	1.4	1962	11.2	1967
Italy.....	.7	3.6	386.9	<sup>1</sup> ---	1961	8.2	1965
Eastern Europe.....	7.5	4.6	-38.8	1.3	1966	10.1	1961
Romania.....	5.2	2.1	-59.4	.5	1966	6.9	1961
Union S. Africa.....	8.6	.7	-91.6	.2	1966	11.0	1962
Brazil.....	1.7	3.3	94.5	<sup>1</sup> ---	1962	5.2	1966
Argentina.....	29.1	25.0	-14.1	24.0	1965	32.7	1962
All Others.....	2.7	3.6	34.8	1.6	1966	7.7	1967

<sup>1</sup> Less than \$50,000 or 0.05 percent



imports from the United States fell 35 percent from the 1966 peak, and the market share fell to the lowest level in the 1961-67 period.

There are several explanations for the decline in value and U.S. market share. In the first place, the value of imports fell because there was a sharp decline in international corn prices. Prices started to decline in the spring of 1967 when the better Southern Hemisphere crops reached the market, and they dropped sharply in the fall of 1967 in reaction to the excellent harvests in the United States and in Western Europe, the main importing region. Second, increased EC coarse grain production, especially of barley, reduced the need for imports. U.S. domestic and export prices for corn were higher in early 1967, making the United States less competitive with other suppliers. Consequently, imports increased from Eastern Europe and a number of other smaller exporters. The increased market share of other nonmember countries basically was matched by a decrease in the U.S. share, since the relative importance of intra-Community trade did not change materially.

A third explanation is found in an analysis of Italian imports. For a decade before the CAP, Italy's imports from the United States varied from practically nothing to \$11 million and averaged roughly only \$4 million. From \$6 million in 1961, this trade grew steadily to \$150 million in 1966. Italian imports from other nations outside the Community also grew very rapidly, although not as fast as those from the United States. From 1963 through 1966, Italy imported about 300,000 tons of corn annually from the United States and other sources and re-exported it to Germany. This was profitable despite transportation cost, since the variable levy on corn imported into Italy was very low. Upon re-export to Germany, the corn was subject only to a low intra-Community levy. The loophole permitting this trade has been closed.

Therefore, transshipments through Italy will no longer be a factor supporting U.S. exports or those of other nonmember nations. Loss of the licensing preference by South Africa and Argentina was a positive influence on U.S. exports to the EC at the time, but no additional impetus can be expected. Beginning on July 1, 1967, EC regulations permitted Italy to import feed grains at a threshold price lower than the "unified" price for the other members (see pp. 37-38). To the extent that the demand function is elastic for feed grains in Italy, imports from the United States and other nonmembers will be assisted. However, this exception will end after the 1971/72 marketing year. Thus, the major forces left will be the indirect demand for feed grains as demand for meat continues to expand, pitted against EC grain production increases behind a

protective levy and encouraged by high producer prices. Of these two factors, more uncertainty exists with regard to future production responses.

**BARLEY:** The Community is over 90 percent self-sufficient in barley. However, Germany, Italy, and Belgium-Luxembourg import significant quantities. In descending order of importance, the primary suppliers are France, the United States, and the United Kingdom.

The value of barley imported by the Community from the United States declined 20 percent between 1961-63 and 1965-67 and the U.S. market share declined by nearly 50 percent to 14.5 percent (table 17). This decline would have been much worse had not Italy increased its imports significantly in the latter 3-year period. In contrast to the corn situation, there has been no evidence of barley being imported into Italy and re-exported to Germany.

Approximately 37 percent of the Community's imports in 1961-63 were obtained from nonmembers other than the United States. This proportion did not change in 1965-67. Given the constant position for other nonmembers, it necessarily follows that a decline for the United States is matched by an increase in intra-Community trade. Reflecting these changes, Germany between 1961-63 and 1965-67 increased its import from France from \$20 million to \$55 million; import from the United States at the same time dropped \$11 million from a level of \$23 million. The area and yield of barley in France have been increasing over the last decade and therefore appear to have been independent of the CAP to a considerable extent. However, the variable levy system assures France of a preference in the Community for its increased production.

As with corn, 1967 was a relatively unfavorable year for barley imports from the United States. The Community harvested a large crop and U.S. barley import totaled only \$24 million. Not since 1961 had the Community imported so little barley. The U.S. market share dropped to less than 10 percent, the lowest in years, and at the same time the French position improved fairly significantly. Barley imports, however, have fluctuated considerably over time, and it is difficult to draw firm conclusions concerning basic changes from 1-year movement.

**"OTHER" FEED GRAINS<sup>7</sup>:** Between 1961 and 1966 the Community produced 75 to 85 percent of the "other" feed grain it utilized. The remaining proportion

<sup>7</sup> This classification includes rye, oats, grain sorghum, buckwheat, millet, canaryseed, and other cereals. Of these, the Common Market produces mostly rye and oats and imports from the United States mainly grain sorghums.

TABLE 17.--Value of EC barley imports, by source of imports, and market share for each source

Country	Average value		Change	7-year low		7-year high	
	1961-63	1965-67					
Value imported from:	<i>Mil. dol.</i>	<i>Mil. dol.</i>	<i>Pct.</i>	<i>Mil. dol.</i>	<i>Year</i>	<i>Mil. dol.</i>	<i>Year</i>
World.....	157.4	237.9	51.1	117.8	1961	253.7	1966
United States.....	43.3	34.4	-20.6	16.8	1961	79.5	1962
EC.....	55.5	115.0	107.3	46.5	1962	135.6	1967
France.....	43.3	97.0	124.1	37.1	1962	116.7	1967
Netherlands.....	11.7	13.3	14.3	9.3	1962	14.9	1965
EFTA.....	18.5	40.0	116.5	12.1	1963	50.1	1967
Denmark.....	3.0	11.5	285.3	1.9	1961	16.0	1965
United Kingdom.....	12.8	24.0	87.9	3.9	1964	35.1	1967
Eastern Europe.....	9.8	10.3	5.2	5.7	1964	15.9	1965
USSR.....	5.1	6.0	17.4	1.5	1964	13.1	1965
Canada.....	.2	12.8	<sup>1</sup> ---	.1	1962	19.0	1967
Australia.....	12.2	9.0	-26.5	5.4	1964	16.4	1962
Argentina.....	6.2	11.2	79.9	1.8	1963	20.5	1965
Syria.....	7.2	2.4	-67.3	<sup>2</sup> ---	<sup>3</sup> 1961	13.7	1962
All Others.....	4.6	2.8	-37.7	.7	1961	9.4	1962
Share imported from:	<i>Percent</i>			<i>Year</i>	<i>Percent</i>	<i>Year</i>	
World.....	100.0	100.0	---	---	---	---	---
United States.....	27.5	14.5	-47.4	9.8	1967	37.1	1962
EC.....	35.3	48.4	37.2	21.7	1962	54.3	1967
France.....	27.5	40.8	48.3	17.3	1962	46.7	1967
Netherlands.....	7.4	5.6	-24.4	4.4	1962	10.0	1963
EFTA.....	11.7	16.8	43.2	8.6	1963	20.1	1967
Denmark.....	1.9	4.8	155.0	1.6	1961	7.6	1965
United Kingdom.....	8.1	10.1	24.3	2.5	1964	14.1	1967
Eastern Europe.....	6.2	4.3	-30.4	2.9	1966	13.3	1961
USSR.....	3.2	2.5	-22.3	.9	1967	8.0	1961
Canada.....	.1	5.4	<sup>1</sup> ---	<sup>2</sup> ---	1962	7.6	1967
Australia.....	7.7	3.8	-51.3	3.2	1967	8.2	1961
Argentina.....	4.0	4.7	19.1	1.3	1963	11.3	1964
Syria.....	4.6	1.0	-78.4	<sup>2</sup> ---	<sup>3</sup> 1961	6.4	1962
All Others.....	2.9	1.2	-58.8	.6	1961	4.4	1962

<sup>1</sup> More than 1,000 percent change<sup>2</sup> Less than \$50,000 or 0.05 percent<sup>3</sup> First of two or more years at this value

as supplied by imports, mainly grain sorghums, and these ranged from \$120 million to \$200 million annually (table 18). On the average about 50 percent of these were obtained from the United States, by far the largest supplier. Argentina is the second largest supplier, followed by Australia. In 1965-67 about 11 percent of imports came from intra-Community trade, up from 6 percent in 1961-63.

The value of imports from all sources increased some between 1961-63 and 1965-67. However, as with corn and barley, but not wheat, a significant change occurred in 1967 in the value and proportion of other feed grains imported from the United States. Community imports from all sources were down 14 percent from 1966, but down 50 percent from the United States. The U.S. market share, at 36 percent, was at the lowest level in 7 years. Increased coarse grain production caused part of the decline, but Belgium-Luxembourg obtained \$12 million, or 20 percent, of its other feed grain imports

from Mexico in 1967. This trade pattern previously had been nonexistent, and the increase was associated with a decline of \$20 million in imports from the United States. There also was an increase in intra-Community trade.

**ALL COARSE GRAINS:** Since corn, barley, grain sorghum, and other coarse grains are somewhat substitutable for each other, it is necessary to review these grains as one commodity. Changes in EC coarse grain imports from the United States between 1961-63 and 1965-67 are as follows:

	1961-63 Average	1965-67 Average	Change
<i>Million dollars</i>			
Corn.....	176	354	101
Barley.....	43	34	-21
"Other" feed grains .	83	90	8
Total.....	302	478	58



TABLE 18.-Value of EC "other" feed grain imports, by source of imports, and market share for each source

Country	Average value		Change	7-year low		7-year high	
	1961-63	1965-67					
Value imported from:	<i>Mil. dol.</i>	<i>Mil. dol.</i>	<i>Pct.</i>	<i>Mil. dol.</i>	<i>Year</i>	<i>Mil. dol.</i>	<i>Year</i>
World . . . . .	161.2	172.0	6.7	122.0	1961	199.9	1962
United States . . . . .	83.4	90.1	8.0	56.2	1967	111.3	1966
EC . . . . .	8.9	18.5	107.3	7.2	1963	24.5	1967
France . . . . .	1.0	9.0	791.1	.2	1962	12.9	1967
Netherlands . . . . .	4.0	8.3	106.9	1.8	1961	10.5	1967
EFTA . . . . .	9.2	7.1	-23.0	2.5	1964	14.3	1962
Sweden . . . . .	4.9	6.4	30.3	2.1	1964	8.2	1962
Eastern Europe . . . . .	8.0	.7	-91.5	.2	1966	13.6	1962
Canada . . . . .	9.2	7.4	-19.2	2.3	1967	16.1	1963
Australia . . . . .	13.5	12.9	-4.3	8.7	1964	17.1	1967
Argentina . . . . .	22.3	23.9	7.3	15.8	1961	32.5	1964
All Others . . . . .	6.6	11.4	71.6	5.6	1966	21.9	1967
Share imported from:	<i>Percent</i>				<i>Year</i>	<i>Percent</i>	<i>Year</i>
World . . . . .	100.0	100.0	---	---	---	---	---
United States . . . . .	51.8	52.4	1.3	35.8	1967	60.7	1966
EC . . . . .	5.5	10.7	94.3	3.8	1962	15.6	1967
France . . . . .	.6	5.2	735.5	.1	1962	8.2	1967
Netherlands . . . . .	2.5	4.8	94.0	1.5	1961	6.7	1967
EFTA . . . . .	5.7	4.1	-27.8	1.7	1964	7.2	1962
Sweden . . . . .	3.1	3.7	22.1	1.4	1963	5.0	1967
Eastern Europe . . . . .	5.0	.4	-92.0	.1	1966	6.8	1962
Canada . . . . .	5.7	4.3	-24.3	1.5	1967	9.9	1963
Australia . . . . .	8.3	7.5	-10.3	5.5	1965	10.9	1967
Argentina . . . . .	13.8	13.9	.6	11.5	1963	21.7	1964
All Others . . . . .	4.1	6.6	60.9	3.1	1966	14.0	1967

Corn accounts for nearly three-fourths of U.S. coarse grain exports to the Community, by value. Thus, the pattern set by corn largely determines the pattern for all the coarse grains. U.S. coarse grains in general benefited from the increasing demand for meat which led to a larger feed grain requirement. In addition, corn benefited from the transshipments made through Italy and from the loss of licensing preference in Italy by South Africa and Argentina. Despite the increased value, the U.S. market share remained unchanged at 43 percent between 1961-63 and 1965-67 (table 19). The value of intra-Community trade increased significantly between these two periods as did its market share.

The decline in imports from the United States in 1967, when coarse grains production in the Community increased 15 percent, is as follows:

	1966	1967	Change
	<i>Million dollars</i>		<i>Percent</i>
Corn .....	413	270	-35
Barley .....	45	24	-47
"Other feed grains" ..	111	56	-50
Total .....	569	350	-38

Of course, 1966 was a peak year for EC imports of corn and other feed grains from the United States. Increased production in 1967 obviously reduced the need for deficit EC countries to import from any source and, within the protection of the variable levy system, it increased the ability of surplus members to meet any deficit. Increased imports from Mexico appeared to be an important factor in the reduction of imports from the United States, but this was in no way tied to the CAP. Of great importance was a lower world market price for corn. The closing of the loophole that permitted transshipment of corn through Italy was of some influence.

ALL GRAINS: This classification is obtained by adding wheat and wheat flour to coarse grains; rice is therefore excluded. The major difference between EC imports of coarse grains and all grains is that the USSR's and Canada's importance increased, thus reflecting the importance of wheat and wheat flour to these two nations (table 20). The USSR supplied virtually no coarse grains to the Community in 1961-67 and Canada very little. Accordingly, the U.S. market share was not altered significantly for either coarse grains or all grain from 1961-63 to 1965-67.



TABLE 19.- Value of EC coarse grain imports, by source of imports, and market share for each source

Country	Average value		Change	7-year low		7-year high	
	1961-63	1965-67					
Value imported from:	<i>Mil. dol.</i>	<i>Mil. dol.</i>	<i>Pct.</i>	<i>Mil. dol.</i>	<i>Year</i>	<i>Mil. dol.</i>	<i>Year</i>
World . . . . .	706.0	1122.4	59.0	520.3	1961	1201.9	1966
United States . . . . .	302.7	478.7	58.1	199.6	1961	568.8	1966
EC. . . . .	83.7	226.4	170.5	60.0	1962	237.0	1967
Canada . . . . .	9.4	20.2	114.9	3.6	1961	25.7	1966
Australia . . . . .	25.6	21.9	-14.5	14.1	1964	29.1	1962
Argentina . . . . .	141.5	213.5	50.9	102.8	1961	222.0	1966
Romania . . . . .	20.2	15.1	-25.2	3.8	1966	27.1	1964
Brazil . . . . .	6.6	23.6	257.6	1. . .	1961	39.9	1966
South Africa . . . . .	33.3	5.1	-84.7	1.6	1966	41.2	1962
All Others . . . . .	83.0	117.9	42.0	53.8	1964	179.0	1967
Share imported from:	<i>Percent</i>				<i>Year</i>	<i>Percent</i>	<i>Year</i>
World . . . . .	100.0	100.0	---	---	---	---	---
United States . . . . .	42.9	42.6	-0.7	33.3	1967	47.3	1966
EC. . . . .	11.9	20.2	70.0	7.6	1962	22.5	1967
Canada . . . . .	1.3	1.8	38.5	0.7	1961	2.1	1966
Australia . . . . .	3.6	2.0	-44.4	1.7	1964	4.0	1961
Argentina . . . . .	20.0	19.0	-5.0	18.5	1966	22.7	1964
Romania . . . . .	2.9	1.3	-55.2	.3	1966	3.2	1961
Brazil . . . . .	.9	2.1	133.3	1. . .	1961	3.3	1966
South Africa . . . . .	4.7	.5	-89.4	.1	1966	5.2	1962
All Others . . . . .	11.8	10.5	-11.0	6.3	1964	17.0	1967

<sup>1</sup> Less than \$50,000 or 0.05 percent

#### Destination of Community Exports

The high producer price established by the Community may lead to increased production and thus to greater exports. Through 1967, however, only the French exported much grain, mostly wheat and barley. In 1965-67, French exports of these commodities accounted for 81 percent of all EC grain exports to all destinations. The Dutch were the second largest grain exporters, accounting for 8.5 percent. Emphasis is given therefore to the French exports and what their effect has been upon U.S. exports.

Of the annual average of \$375 million worth of French wheat and barley exported in 1965-67, about \$162 million or 43 percent stayed within the Community. Any important changes in this trade were analyzed in "Sources of Community Imports" (see page 22) as intra-Community trade. The following analysis will consider only the \$213 million of French grain that left the Community.

**WHEAT:** Of the \$213 million in French grain exports outside the EC in 1965-67, about 72 percent was wheat. Half of this was exported to Eastern Europe—primarily East Germany, Poland, and Czechoslovakia (table 21). Wheat exports to these countries from the United States typically depend upon considerations other than commercial competitiveness.

In 1965-67, the French exported just over \$80 million of wheat to free world nations outside the Community. Between \$8 million and \$15 million was exported to Switzerland, the United Kingdom, Morocco, Algeria and Senegal, and a lesser amount to other destinations. Morocco, Algeria, and Senegal are not commercial markets for the United States. Swiss imports from the United States increased between 1961-63 and 1965-67; also, the proportion imported from the United States increased from 10 to 16 percent. Imports in 1967 were not significantly different from prior years. This suggests that the CAP has not yet hurt the United States in the Swiss market, but Switzerland has not been a major market for U.S. wheat.

On the other hand, the United States exports a fair amount of wheat to the United Kingdom, \$33 million in 1965-67. There was no decline in either the quantity or proportion imported from the United States, and the 1967 data were little different from prior years.

Much smaller commercial markets for U.S. wheat include Norway, Ireland, and Portugal. There have been increases in U.S. wheat shipments to Norway and Ireland. Portugal was a \$13 million market for the United States in 1961-63. Over three-fourths of Portugal's wheat imports came from the United States; in fact, in 1962 all wheat imports came from the United States. In more recent years France, along with Spain,

TABLE 20.-Value of all EC grain imports, by source of imports, and market share for each source<sup>1</sup>

Country	Average value		Change	7-year low		7-year high	
	1961-63	1965-67					
Value imported from:	<i>Mil. dol.</i>	<i>Mil. dol.</i>	<i>Pct.</i>	<i>Mil. dol.</i>	<i>Year</i>	<i>Mil. dol.</i>	<i>Year</i>
World .....	1122.2	1492.0	33.0	1043.4	1961	1576.2	1966
United States .....	418.9	581.3	38.8	390.6	1961	695.3	1966
EC .....	122.4	309.5	152.9	100.2	1962	322.4	1967
Canada .....	139.7	123.1	-11.9	108.9	1964	159.0	1961
Australia .....	51.6	25.2	-51.2	19.7	1965	67.8	1961
Argentina .....	188.1	269.3	43.2	190.9	1963	302.0	1965
USSR .....	29.2	9.5	-67.5	1.5	1964	47.2	1961
Romania .....	20.2	15.1	-25.2	3.8	1966	27.1	1964
Brazil .....	6.6	23.6	257.6	10.5	1967	39.9	1966
South Africa .....	33.3	5.1	-84.7	1.6	1966	41.2	1962
All others .....	112.2	130.3	16.1	95.8	1961	229.4	1967
Percent imported from:	<i>Percent</i>				<i>Year</i>	<i>Percent</i>	<i>Year</i>
World .....	100.0	100.0	----	-----	---	-----	----
United States .....	37.3	39.0	4.6	32.0	1967	38.6	1963
EC .....	10.9	20.7	89.9	8.3	1962	20.7	1967
Canada .....	12.4	8.3	-33.1	8.0	1965	15.2	1961
Australia .....	4.6	1.7	-63.0	1.3	1965	6.5	1961
Argentina .....	16.8	18.0	7.1	2.6	1963	20.6	1962
USSR .....	2.6	.6	-76.9	1.3	1962	17.1	1963
Romania .....	1.8	1.0	-44.4	.4	1966	2.2	1964
Brazil .....	.6	1.6	166.6	.7	1967	2.5	1966
South Africa .....	3.0	.3	-90.0	.1	1966	3.6	1963
All others .....	10.0	8.7	-13.0	6.7	1966	12.8	1962

<sup>1</sup> Includes wheat flour; excludes rice

TABLE 21.-Annual value and export market share of wheat exports by France to nonmember nations, 1965-67 average

Country	Value	Export market share
	<i>Million dollars</i>	<i>Percent</i>
Eastern Europe .....	72	47
East Germany .....	28	18
Poland .....	21	14
Czechoslovakia .....	15	10
Switzerland .....	10	7
United Kingdom .....	14	9
Morocco .....	15	10
Algeria .....	8	5
Senegal .....	8	5
Other .....	26	17
Total .....	153	100

cut deeply into this market and in 1965-67 the United States had only one-third of a larger market, with exports down 40 percent from 1961-63.

**BARLEY:** France exported about \$60 million of barley to nations outside the Community in 1965-67. In contrast to wheat, exports of barley to Eastern Europe were small—only 9 percent of the \$60 million. Major markets were Switzerland (\$24 million) and Spain (\$16

million). French exports to these 2 countries were much above the 1961-63 level.

Switzerland was never a large market for U.S. barley. In the last 7 years Swiss imports from all sources grew steadily, but imports from the United States shrunk to practically nothing. On the other hand, French exports have grown steadily, and since there are no other suppliers of consequence, this is a clear case of Community, or at least French, exports displacing U.S. exports.

Imports by Spain have been somewhat erratic, both in total imports and source of imports. The United States has lost ground in this market, with France and the United Kingdom gaining. Imports by Spain from the United States dropped from \$6 million to \$1 million between 1961-63 and 1965-67.

Outside the Community, Japan is the largest foreign market for U.S. barley. The United States exported over \$12 million in 1965-67, up considerably from \$2 million in 1961-63. Through 1967 France offered no competition, but recent data show that it made very substantial sales in 1968 that pose a serious threat to this important U.S. market. Denmark is also a market of some significance and U.S. exports to this destination increased through 1967 without evidence of increased competition from France.

# direct Effects of the Variable Levy on U.S. Exports

There was a decline in the volume and proportion of some imports by the Community from some non-members other than the United States. With a declining C market, these countries will naturally turn to other nations that are significant importers of grains. Thus, the question arises concerning whether the United States has been hurt in its traditional markets by competitors seeking new markets after finding their exports to the Community impeded and declining.

**WHEAT:** Only two major commercial markets for U.S. wheat are outside the Community—Japan to which the United States exported \$219 million in 1965-67 and the United Kingdom, which took \$33 million. Smaller markets and the value of imports from the United States are:

Portugal	\$8 million
Norway	\$6 million
Switzerland	\$5 million
Ireland	\$4 million.

Total wheat imports by Japan have been growing rapidly as have imports from the United States. Between 1962 and 1967, Japan obtained practically no wheat from any European country and there was no evidence of any indirect detrimental effect of the CAP upon this important market.

Wheat imports by the United Kingdom have not grown rapidly but again there was no evidence of any detrimental effect from the CAP.

Imports by Portugal from the United States declined from \$13 million to \$8 million between 1961-63 and 1965-67. In 1967 Portugal imported \$11 million from Spain; there had been no such trade from 1961 to 1966. Since Spain had not been a source of wheat for the Community, it seems unlikely that the switch from U.S. to Spanish wheat resulted from introduction of the CAP. No effect on other small U.S. markets was noted.

**CORN:** Major U.S. commercial markets outside the Community in 1965-67 were Japan (\$117 million), the United Kingdom (\$96 million) and Spain (\$73 million). Lesser markets for U.S. corn included:

Ireland	\$7 million
Portugal	\$6 million
Austria	\$5 million
Norway	\$4 million

Japanese corn imports from all sources have been growing rapidly (table 22). However, despite increased exports to Japan, the United States faces stiff and growing competition from South Africa, Mexico, and Thailand. There are a number of reasons. Of course, exports by these nations to the Community may have been impeded by the CAP. This naturally would cause

TABLE 22.--Value of corn imports by Japan, by source of imports, and market share for each source

Country	Average value		Change	6-year low <sup>1</sup>		6-year high <sup>1</sup>	
	1962-63 <sup>1</sup>	1965-67					
Value imported from:	<i>Mil. dol.</i>	<i>Mil. dol.</i>	<i>Pct.</i>	<i>Mil. dol.</i>	<i>Year</i>	<i>Mil. dol.</i>	<i>Year</i>
World .....	146.1	248.6	70.2	133.7	1962	271.0	1967
United States .....	62.4	140.0	124.4	59.6	1962	156.6	1965
China Mainland .....	2.6	10.3	296.2	<sup>2</sup> ---	1962	16.0	1965
Union S. Africa .....	48.3	16.7	-65.4	<sup>2</sup> ---	1966	50.0	1962
Mexico .....	<sup>2</sup> ---	18.1	<sup>3</sup> ---	<sup>2</sup> ---	<sup>4</sup> 1962	24.6	1967
Thailand .....	19.4	44.8	130.9	13.8	1962	50.3	1966
All Others .....	13.4	18.7	39.5	6.4	1965	35.5	1967
Share imported from:		<i>Percent</i>			<i>Year</i>	<i>Percent</i>	<i>Year</i>
World .....	100.0	100.0	-----	-----	-----	-----	-----
United States .....	42.7	56.3	32.0	40.7	1967	67.7	1965
China Mainland .....	1.8	4.1	127.8	<sup>2</sup> ---	1962	6.9	1965
Union S. Africa .....	33.1	6.7	-79.8	<sup>2</sup> ---	1966	37.4	1962
Mexico .....	<sup>2</sup> ---	7.3	<sup>3</sup> ---	<sup>2</sup> ---	<sup>4</sup> 1962	9.1	1967
Thailand .....	13.3	18.0	35.3	10.3	1962	21.6	1964
All Others .....	9.1	7.7	-16.5	2.8	1965	13.1	1967

<sup>1</sup> 1961 data not available

<sup>2</sup> Less than \$50,000 or 0.05 percent

<sup>3</sup> More than 1,000 percent change

<sup>4</sup> First of two or more years at this value



them to look for new markets. But these nations are also increasing corn production through use of better seeds and more fertilizer.

Much of the increased output may go into export channels, although some will be used domestically. The South Africans are importing large quantities of manufactured goods from the Japanese; to reciprocate, the Japanese are importing more corn from South Africa, among other things. Independent of this consideration, the Japanese have made it national policy to become less dependent upon the United States for imports. As a result they are increasingly turning to South Africa, Thailand, and more recently even to Mexico, traditionally not a supplier to Japan.

The United States did quite well in Japan in 1965 and 1966 because of South Africa's poor crop in these years. In 1967, South Africa had a very good crop and Japanese imports from the United States dropped \$43 million while imports from South Africa increased \$48 million. It is noteworthy that EC imports from South Africa were lower in 1967 than one might expect in a year when the South Africans had a good crop. Japanese imports from Thailand held steady, increased \$9 million from Mexico, and increased \$20 million from "all other sources." Thus, the United States is facing more competition in Japan, but only a part of this is associated with the effects of the CAP. Despite the growing competition, the United States remained the leading supplier to Japan through 1967.

The average value of U.S. corn exported to the United Kingdom was mostly unchanged between 1961-63 and 1965-67. The major competitor to the United States in this market is South Africa. South Africa's market share generally increased in this market after the CAP was instituted, except in the 2 years when South Africa had poor crops. Thus, there is the possibility that the CAP's effects are being felt here also.

Spain's corn imports have grown rapidly since 1961. Its imports from the United States also grew through 1966, but in 1967 they dropped 40 percent below the 1966 peak of \$118 million. Even though the dollar value increased through 1966, the proportion from the United States moved erratically. On the other hand, the proportion and quantity imported from Argentina rose at an increasing rate. If the market share and quantity of corn imported by the Community from Argentina had declined significantly, a strong case could be made that the CAP had shifted Argentine exports from the Community to Spain, and to the detriment of the United States. The case is not clearcut, however. Argentina's market share in the Community increased slightly, but the quantity decreased \$19 million, equivalent to about half the increase in exports to Spain.

In the smaller markets of Austria, Ireland, and Norway, changes in imports from the United States between 1961-63 and 1965-67 were small. Portugal increased its imports from the United States from practically nothing in 1961-63 to \$5.6 million in 1965-67. No effects from the CAP were noted through 1967.

**BARLEY:** For this commodity Japan was also the leading market outside the Community. U.S. exports to Japan, however, were only \$12 million in 1965-67. Denmark was second in imports from the United States with about \$6 million. Spain in 1961-63 was a fair market (\$6 million) but in 1965-67 this nation imported only \$1 million.

Data on barley imports by Japan in 1961 and 1966 are not available. Between 1963 and 1966 the value of imports from the United States increased but the market share moved erratically. In 1967, the value declined by \$9 million, from \$18 million in 1966, and the market share declined from 60 percent to 24 percent. The decline was matched by increases for Australia and Canada. There were no other suppliers to Japan.

EC imports from Australia did decline in 1967 but not enough to suggest that Australia has redirected exports to any great extent to Japan due to difficulty in shipping to the Community. Canada's shipments to both the Community and Japan have increased rather steadily. While these imports offer competition to the United States, they do not suggest any changes in traditional trade patterns caused by the CAP.

Denmark was a small but growing market for U.S. barley between 1961-63 and 1965-67. The only other significant change in source of supply was an increase in barley imports from the United Kingdom. These increased from practically nothing to \$13 million in 1966 but dropped to \$7 million in 1967. However, Community imports from the United Kingdom also increased significantly between these two periods, negating any link here concerning redirection of trade.

British barley also moved heavily into Spain in 1966 and 1967. But again, the strongest argument that can be made against the CAP is that in its absence more U.K. barley would have been imported by the Community; less would have gone from the United Kingdom to Spain, and more from the United States to Spain. Such possibilities, however, are most difficult to measure.

**"OTHER" FEED GRAINS:** Nearly all U.S. exports under this category are grain sorghums. As with wheat, corn, and barley, Japan is the leading U.S. commercial market outside the Community. The United States



ported to this market an average of \$99 million annually in 1965-67. Minor markets included:

United Kingdom	\$8 million
Norway	\$6 million
Ireland	\$5 million
Switzerland	\$4 million

The U.S. market share in Japan declined from 94 percent in 1962 to 85 percent in 1967. But, the dollar volume increased each year between 1962 and 1967. So, the decline in U.S. market share was matched not by a large thrust by a major producer but by increases from many other minor sources. This gives little support to the hypothesis that the CAP had a detrimental effect on U.S. exports to Japan through 1967.

Also, there is no evidence to support this hypothesis with regard to exports to the United Kingdom and Switzerland. The case for Norway is similar to that for Japan—some evidence, but not substantial. Ireland on the other hand was a fast growing market—not a declining one.

**ALL COARSE GRAINS:** Japan is of course the largest non-EC market for U.S. coarse grains. Not only is it large, it is a rapidly growing market (table 23). While the United States faces stiffer competition from several large grain producers around the world, this competi-

tion is only partly the result of decreased exports to the Community.

The other major coarse grain importers are the United Kingdom and Spain. Their coarse grain imports are almost entirely corn. Pressures of the CAP may have changed the destination of South African corn from the Community to the United Kingdom and thereby to the detriment of the United States. Similarly, there is some evidence to suggest that Argentine corn exports that would have moved into the EC moved into Spain. No effect of the CAP on U.S. exports to a number of smaller markets was noted except for some evidence that "other" feed grain exports to Norway may have been adversely affected.

**ALL GRAINS:** Changes in overall grain imports by Japan and the United Kingdom, the two major U.S. markets outside the Community, are shown in tables 24 and 25. The U.S. position has improved in both cases, but apparently more so with regard to Japan than the United Kingdom. The United Kingdom appears to have increased its imports from the Netherlands, but a proportion of these imports were transshipments through Rotterdam and neighboring ports, and some proportion of these shipments came from the United States. This of course weakens the analysis of U.K. imports. All evidence indicates that other importing nations have adjusted for transshipments through the Netherlands.

TABLE 23.--Value of coarse grain imports by Japan, by source of imports, and market share for each source<sup>1</sup>

Country	Average value		Change	6-year low <sup>2</sup>		6-year high <sup>2</sup>	
	1962-63 <sup>2</sup>	1965-67					
Value imported from:	<i>Mil. dol.</i>	<i>Mil. dol.</i>	<i>Pct.</i>	<i>Mil. dol.</i>	<i>Year</i>	<i>Mil. dol.</i>	<i>Year</i>
World .....	183.8	416.0	126.3	154.8	1962	477.5	1967
United States .....	96.7	266.0	175.1	79.7	1962	289.2	1966
Mexico .....	<sup>3</sup> ---	18.1	<sup>5</sup> ----	<sup>3</sup> ---	<sup>4</sup> 1962	24.6	1967
Canada .....	.9	13.7	<sup>5</sup> ----	1.9	1963	19.1	1967
Australia .....	.2	8.5	<sup>5</sup> ----	.4	1963	11.4	1967
Thailand .....	19.4	44.8	130.9	13.8	1962	50.3	1966
South Africa .....	48.3	16.7	-65.4	<sup>3</sup> ---	1966	50.0	1962
Argentina .....	.6	10.2	<sup>5</sup> ----	.1	1962	12.9	1964
All others .....	17.7	38.0	114.7	11.2	1962	58.9	1967
Share imported from:	<i>Percent</i>			<i>Year</i>	<i>Percent</i>	<i>Year</i>	
World .....	100.0	100.0	----	-----	-----	-----	-----
United States .....	52.6	63.9	21.5	51.5	1962	70.7	1966
Mexico .....	<sup>3</sup> ---	4.4	<sup>5</sup> ----	<sup>3</sup> ---	<sup>4</sup> 1962	5.2	1967
Canada .....	.5	3.3	560.0	<sup>3</sup> ---	1962	4.0	1967
Australia .....	.1	2.0	<sup>5</sup> ----	<sup>3</sup> ---	1962	3.1	1965
Thailand .....	10.6	10.8	1.9	8.9	1962	12.3	1966
South Africa .....	26.3	4.0	-84.8	<sup>3</sup> ---	1966	21.9	1963
Argentina .....	.3	2.5	733.3	<sup>3</sup> ---	1962	4.3	1964
All others .....	9.6	9.1	-5.2	7.2	1962	12.3	1967

<sup>1</sup> Does not include rye and oats

<sup>2</sup> 1961 data not available

<sup>3</sup> Less than \$50,000 or 0.05 percent

<sup>4</sup> First of two or more years at this value

<sup>5</sup> More than 1,000 percent change

TABLE 24.-Value of all grain imports by Japan, by source of imports, and market share for each source<sup>1</sup>

Country	Average value		Change	6-year low <sup>2</sup>		6-year high <sup>2</sup>	
	1962-63 <sup>2</sup>	1965-67					
Value imported from:	<i>Mil. dol.</i>	<i>Mil. dol.</i>	<i>Pct.</i>	<i>Mil. dol.</i>	<i>Year</i>	<i>Mil. dol.</i>	<i>Year</i>
World .....	383.3	695.1	81.3	325.7	1962	785.1	1967
United States .....	175.3	412.7	135.4	139.7	1962	438.6	1966
Canada .....	92.3	117.0	26.8	90.0	1962	132.8	1967
Mexico .....	<sup>3</sup> ---	18.1	<sup>4</sup> ---	<sup>3</sup> ---	1962	24.6	1967
Australia .....	27.1	37.7	39.1	25.1	1963	46.3	1967
Thailand .....	19.4	44.8	130.9	13.8	1962	50.3	1966
South Africa .....	48.3	16.7	-65.4	<sup>3</sup> ---	1966	50.0	1962
Argentina .....	.6	10.1	<sup>4</sup> ---	.1	1962	12.9	1964
Other .....	20.3	38.0	87.2	13.2	1965	58.9	1967
Share imported from:	<i>Percent</i>			<i>Year</i>		<i>Percent</i>	<i>Year</i>
World .....	100.0	100.0	---	---	---	---	---
United States .....	45.8	59.4	29.7	41.6	1962	63.8	1966
Canada .....	24.1	16.8	-30.3	16.5	1966	26.8	1962
Mexico .....	<sup>3</sup> ---	2.6	<sup>4</sup> ---	<sup>3</sup> ---	<sup>5</sup> 1962	3.1	1967
Australia .....	7.1	5.4	-23.9	4.1	1966	8.6	1962
Thailand .....	5.1	6.4	25.5	4.1	1962	8.0	1964
South Africa .....	12.6	2.4	-79.7	<sup>3</sup> ---	1966	14.9	1962
Argentina .....	.2	1.5	650.0	<sup>3</sup> ---	1962	2.3	1964
Other .....	5.3	5.5	3.8	1.5	1965	6.8	1967

<sup>1</sup> Does not include rice, wheat flour, rye and oats<sup>2</sup> 1961 data not available<sup>3</sup> Less than \$50,000 or 0.05 percent<sup>4</sup> More than 1,000 percent change<sup>5</sup> First of two or more years at this levelTABLE 25.-Value of all grain imports by the United Kingdom, by source of imports, and market share for each source<sup>1</sup>

Country	Average value		Change	7-year low		7-year high	
	1961-63	1965-67					
Value imported from:	<i>Mil. dol.</i>	<i>Mil. dol.</i>	<i>Pct.</i>	<i>Mil. dol.</i>	<i>Year</i>	<i>Mil. dol.</i>	<i>Year</i>
World .....	597.7	590.3	-1.2	568.6	1961	650.5	1962
United States .....	168.0	169.6	.6	141.5	1963	213.2	1962
EC .....	47.7	109.2	128.9	44.8	1963	119.0	1967
France .....	18.8	21.7	15.4	13.5	1962	27.9	1967
Netherlands .....	17.6	71.3	305.1	11.8	1961	78.6	1967
Eastern Europe .....	43.9	16.0	-63.6	6.4	1966	59.6	1961
USSR .....	28.9	.7	-97.6	<sup>2</sup> ---	1964	23.7	1962
Romania .....	10.3	7.2	-30.1	3.0	1966	10.6	1961
Canada .....	204.7	179.3	-12.4	154.5	1967	217.3	1964
Australia .....	56.5	41.4	-26.7	11.0	1964	63.4	1961
South Africa .....	26.7	22.8	-14.6	4.9	1966	45.6	1964
Argentina .....	31.6	33.0	4.4	22.9	1961	47.1	1962
Other .....	18.5	19.0	2.7	16.8	1962	103.0	1967
Share imported from:	<i>Percent</i>			<i>Year</i>		<i>Percent</i>	<i>Year</i>
World .....	100.0	100.0	---	---	---	---	---
United States .....	28.1	28.7	2.1	24.6	1963	34.5	1966
EC .....	8.0	18.5	131.3	6.8	1962	20.7	1967
France .....	3.1	3.7	19.4	2.1	1962	5.9	1964
Netherlands .....	2.9	12.1	317.2	2.1	1961	13.7	1967
Eastern Europe .....	7.3	2.7	-63.0	1.1	1966	10.5	1961
USSR .....	4.8	.1	-97.9	<sup>2</sup> ---	1967	7.4	1961
Romania .....	1.7	1.2	-29.4	.5	1966	1.9	1961
Canada .....	34.2	30.4	-11.1	27.0	1967	37.7	1964
Australia .....	9.5	7.0	-26.3	1.9	1964	11.2	1961
South Africa .....	4.5	3.9	-13.3	.8	1966	7.9	1964
Argentina .....	5.3	5.6	5.7	4.0	1961	7.3	1962
Other .....	3.1	3.2	3.2	2.2	1967	7.7	1964

<sup>1</sup> Does not include rice, rye and oats<sup>2</sup> Less than \$50,000 or 0.05 percent

## Role of the European Agricultural Guidance and Guarantee Fund

Implementation of the CAP for grains has involved large budgetary costs to member states and the Community. The Community obligations are met through the Guarantee Section of the European Agricultural Guidance and Guarantee Fund (FEOGA). During the transitional period, national agencies were reimbursed from FEOGA for only a portion of their eligible expenditures on grains, but are to be reimbursed for all such expenditures since July 1, 1967.

Costs for internal market intervention cover primarily losses on the sale of grain purchased, denaturing premiums, reimbursement for losses incurred by grain traders and intervention agencies in carrying over stocks from one market year to the next, and special subsidies to durum producers.

Since EC grain prices are substantially above those in world trade, an export subsidy is necessary to move EC grains into world markets at competitive prices. The amount of the export subsidy is roughly equal to the difference between the domestic price in the EC exporting country and the price at which the grain can be sold on third country markets. As is implied by this definition of the subsidy, there is no upper limit to the amount which may be granted. The minimum price regulations of the International Grains Arrangement (IGA), however, place some constraint on the amount of wheat export subsidy the EC may grant.

Table 26 presents a breakdown, by type of expenditure, for total FEOGA expenditures in the grain sector for 1962/63 through 1968/69. Because the EC is several

years behind in making final accounts for marketing years and in reimbursing the member states for authorized expenditures, data for 1965/66–1968/69 are estimates.

Throughout the first 6 years of FEOGA operation, grain export subsidies represented the major type of expenditure. The very large increase in internal market intervention from 1966/67 to 1967/68 is accounted for by four factors. First, all eligible expenditures became reimbursable. Second, the subsidies to durum producers began in 1967/68 at a rate of \$34.76 per metric ton, and were estimated to amount to approximately \$90 million. Third, intervention agencies and grain traders in Germany, Italy, and Luxembourg were reimbursed for losses incurred as a result of the higher national prices at which they had purchased grains being reduced to the common level as of July 1, 1967. Fourth, record production in 1967/68 required more extensive intervention in the market.

In accordance with a regulation passed in July 1968, higher denaturing premiums are now paid for soft wheat and rye. Indications at present are that less wheat and rye were denatured in 1967/68 than originally estimated. This was probably because the denaturing premiums did not provide adequate compensation for the difference between the prices of food grains and feed grains. For the 1968/69 marketing year, the denaturing premiums for soft wheat range from \$14.02 to \$16.07 per metric ton, depending upon the month of the marketing year in which the denaturation takes place.

Since movement to the common grain prices on July 1, 1967, meant a sudden drop in prices paid to German, Italian, and Luxembourg grain producers, it was agreed

TABLE 26.--FEOGA, Guarantee Section expenditures on grains, 1962/63 - 1968/69

Year	Export subsidies	Internal intervention			Total
		Denaturing premiums	Other	Total	
	Million dollars				
1962/63.....	21.495	4.091	2.372	6.463	27.958
1963/64.....	40.130	5.148	3.744	8.892	49.022
1964/65.....	112.208	7.196	7.410	14.606	126.814
1965/66 <sup>1</sup> .....	104.024	8.991	7.341	16.332	120.356
1966/67 <sup>1</sup> .....	109.085	10.932	16.492	27.424	136.509
1967/68 <sup>1</sup> .....	370.000	16.000	149.000	165.000	535.000
1968/69 <sup>1</sup> .....	454.000	( <sup>2</sup> )	( <sup>2</sup> )	212.000	666.000

<sup>1</sup> Estimates by EC Commission

<sup>2</sup> No breakdown of intervention expenditures is available in 1968/69 estimates.

Sources: EC Budgets for fiscal years 1965-67 as contained in Amtsblatt der Europäischen Gemeinschaften, No. 92, May 28, 1965; No. 110, June 22, 1966; No. 78, April 24, 1967; No. 109, May 10, 1968

Agra-Europe, No. 245, Nov. 29, 1967



in December 1964 that income compensation would be paid to these producers for 3 years from FEOGA. These payments from the Special Section, which are in addition to those under the Guarantee Section, are as follows:

	1967/68	1968/69	1969/70	Total
	<i>Million dollars</i>			
Germany	140.00	93.50	46.75	280.25
Italy	65.00	44.00	22.00	131.00
Luxembourg	1.25	0.75	0.50	2.50
Total	206.25	138.25	69.25	413.75

Because of the emergence of surpluses for soft wheat and the continuation of deficits for coarse grains, the major portion of the expenditures for grains has been for wheat. Unfortunately, no breakdown of costs by type of grain is available. However, table 27 presents estimates made in mid-1966 of total EC member state expenditures for grain export subsidies with such a breakdown. Figures for the first 3 years, but not the later 3 years, are reasonably consistent with those of table 26. Nevertheless, the relative importance of individual grains in total EC grains exports is indicated.

Export subsidy rates vary not only by type of grain, but also by destination of the shipment. The following is

an example of how the export subsidy per metric ton of barley is calculated:

<i>Destination</i>	<i>South America</i>	<i>Japan</i>
Price f.o.b. Rouen	\$94.50	\$94.50
Freight	9.50	13.00
Miscellaneous charges	1.00	1.00
Price c.i.f.	105.00	108.50
Price of competing barley	61.50	60.50
Export subsidy needed	43.50	48.00

Table 28 presents the export subsidies announced by the EC Commission for the week that began June 13, 1968. To illustrate the magnitude of these subsidies they are calculated as a percentage of the basic target price. While the basic target price is not the wholesale price in effect for the week of June 13, it is close enough for illustration.

The extent to which the EC is willing to subsidize grain to move it onto the world market is illustrated by the sales of French wheat to Communist China in February and March 1968. The prevailing price for soft wheat at that time was \$109.70 per metric ton, f.o.b. French port. The export subsidy rate announced by the EC Commission for wheat destined for Communist China was \$52.90 per metric ton. The French then received permission from the EC Commission to grant

TABLE 27.--EC member expenditures on refunds for grain exports

Commodity	1962/63	1963/64	1964/65	1965/66 <sup>1</sup>	1966/67 <sup>1</sup>	1967/68 <sup>2</sup>
	<i>Thousand dollar</i>					
Soft wheat .....	131,523	98,528	210,014	154,271	161,985	232,000
Hard wheat.....	134	144	4	74	74	260
Barley.....	20,332	56,358	47,120	51,739	54,326	25,000
Rye.....	109	62	85	73	73	330
Oats.....	768	1,040	277	658	658	1,100
Corn.....	9,211	17,134	9,442	13,288	13,288	17,000
Other grains.....	3,104	1,056	183	619	619	1,000
Total.....	165,181	174,322	267,125	220,722	231,023	276,690
Borne by EC Agricultural Fund <sup>3</sup>	21,496	40,279	110,184	133,200	159,600	276,690
Percentage of total expenditure	13.0	23.1	41.2	60.3	69.1	100

<sup>1</sup> Provisional figures

<sup>2</sup> Estimate

<sup>3</sup> Until 1966/67 based on net exports and lowest refund; for 1967/68 gross exports and average EC refund

Source: Agra-Europe, No. 172, June 29, 1966

TABLE 28.-Export subsidies for EC grains per metric ton for the week of June 13, 1968, relative to the basic target prices

Kind of grain	Destination	Subsidy	Basic target price	Subsidy relative to basic target price
		<i>Dollars</i>	<i>Dollars</i>	<i>Percent</i>
Soft wheat <sup>1</sup> .....	United Kingdom	51.45	106.25	48
	Austria, Liechtenstein, and Switzerland	52.50	106.25	49
	Other third countries	55.00	106.25	51
Durum Wheat .....	All third countries	57.50	125.00	46
Barley .....	All third countries	36.50	93.75	38
	Zones III B, IV C <sup>2</sup>	43.00	91.25	47
	Zone V C <sup>3</sup>	44.50	91.25	48
	Other third countries	41.30	91.25	45
Barley .....	All third countries	26.00	--	--
Maize .....	Austria, Liechtenstein, and Switzerland	37.75	90.63	42
	Other third countries	39.00	90.63	43
Millet .....	All third countries	23.75	--	--
Sorghum & millets .....	All third countries	35.25	--	--

<sup>1</sup> Not denatured<sup>2</sup> Zone III B is Romania, Bulgaria, and U.S.S.R. Black Sea ports<sup>3</sup> Zone IV C is South America<sup>4</sup> Zone V C is "Other countries and territories of Asia and Oceania," that is other than Zone V A which is the Arabian Peninsula, Iraq, Iran, Afghanistan, Pakistan, India, Nepal, Ceylon, Burma, and Indian Ocean Islands

Excluding seed

Source: Grains &amp; Feed - Quarterly Report, January-March 1968, American Embassy, Paris, AGR - 90, June 18, 1968

Special subsidy of \$11.00 and a freight subsidy of \$2.00 per metric ton on offers totaling 600,000 metric tons. Therefore, the total subsidy on this sale was \$65.90 per metric ton, or 60 percent of the f.o.b. price, and the wheat arrived in Communist China at \$43.80 per metric ton. If the Chinese purchase the entire amount, the total expense to FEOGA will amount to \$39.5 million. Although such extremely low prices for wheat would now be inconsistent with the IGA price range, the EC may still apply as large a subsidy as necessary to export wheat grains.

As with all other commodity groups falling within the CAP, except dairy products and olive oil, there is at present no upper limit on FEOGA expenditures in the grain sector. While projected FEOGA expenditures in the grain sector indicate that they will not be as burdensome as those in the dairy sector, in the process of renegotiation of the Fund in 1969 and 1970, there possibly may be an upper limit placed on these commonly financed expenditures. This would then mark a reversion to national financing of national intervention expenditures. Such a move could have consequences favorable to U.S. grain exports.

If the EC's major grain producer, France, is forced to finance its own intervention to remove from the market the surpluses which have resulted from the EC's high grain prices, the resulting expenditures may become so burdensome that France will seek a change in the grain CAP. Two directions of change are possible. First, lower grain prices may be set so as to remove some of the

incentive for increasing production. Because of the extreme sensitivity of agricultural producers to lower guaranteed prices, this is the less likely direction of change. Second, there may be a move toward limiting production increases by the adoption of programs to divert land to nonfarm uses. Any move to limit production would be in the U.S. interest, either by maintaining a continuing grains deficit to be made up by imports from outside the Community or by reducing competition from EC surplus grain exports to third country markets.

## Special Policy Features Influencing Trade

### Grain Price Ratios and Denaturing Premiums

Future trends in the volume of imports of feed grains into the Community will be significantly affected by EC programs adopted to encourage shifts between wheat and feed grains in both production and consumption. On the production side, the primary policy variable influencing substitution is the relationship between the price objectives for wheat and for feed grains. This is also an important factor affecting substitution in consumption, specifically regarding use of wheat for livestock feed. An additional major consideration is the policy on denaturing premiums for wheat.

Prior to price unification, the price ratio of wheat to feed grains varied among member countries. The wheat



target price in the first year of the transitional period was 115 percent of the barley target price in Germany, about 120 percent in Belgium, France, and the Netherlands, and a Community high of 160 percent in Italy. Some narrowing of the price spread occurred later in the transitional period in the countries with the greatest differentials.

Commission proposals for common grain prices called for setting the wheat target price at 115 percent of the barley target price with agreement being reached at about 116 for the 1967/68 marketing year. This was reduced to approximately 112 percent for the 1968/69 marketing year. Thus, the wheat-barley price spread established for the Community in the second year of unified prices was narrower than that existing previously in any of the member countries, although it is close to the former relationship in Germany.

This reduction of the price spread was not an incidental occurrence but represented an effort to achieve a definite policy goal. Production-consumption developments in the current decade have resulted in a substantial net surplus in EC wheat and a widening deficit for feed grains. The narrower price spreads were selected to encourage a shift in production from wheat to feed grains and to encourage the increased use of wheat for feed. While there has as yet been no significant shift from wheat to feed grain production, there exists a greater incentive for such a shift in most countries now than earlier in the decade. In addition, there is some pressure in the Community for further narrowing of the price spreads.

During the 1960's, wheat feeding to livestock has increased modestly, although not enough time has passed to fully evaluate the impact of the price-spread reduction which accompanied the adoption of common prices. In recent years over 5 million metric tons of wheat have been used annually for livestock feed in the Community. Much of this is wheat fed on farms where grown. In addition, wheat not good enough to be used for milling may be discounted sufficiently in the market to compete with the coarse grains as livestock feed. A third condition under which wheat may be fed is when denaturing premiums are paid on milling quality wheat for the purpose of reducing its price so as to make it competitive with coarse grains.

Feeding of home-grown wheat is largely a matter of custom and is probably not greatly influenced by price policy. The amount of low quality wheat available on the market depends mainly on weather conditions during growing and harvesting. However, price policies may affect the quantity used for feed because a

narrower wheat-coarse grain price spread does require as great a quality discount to bring the wheat price in line with feed grain prices, and a large proportion of the wheat can profitably be fed.

The policy on denaturing premiums has potential causing substantial and rapid changes in the quantity of wheat used for feed. As denaturing premiums increased, wheat becomes available to feed compound and livestock producers at prices more favorable relative to those for barley, corn, sorghum, or other grains normally used for feed. Within a fairly wide range of denatured wheat used for feed is probably limited only by the costs the Community is willing to incur for denaturing premiums. Recent Community decisions on increasing denaturing premiums reflect a desire to increase the amount of wheat utilized in this manner.

Increased use of wheat for feed under the stimulus of denaturing premiums is therefore an alternative to subsidized exports for disposing of the surplus wheat in the Community. Either alternative involves budgetary expenditures, the foregoing of variable levy receipts or both.

A review of factors affecting costs of the two alternatives shows that changing the price spread between wheat and feed grain within the Community does not affect the absolute cost of each—but not their relative costs—while changes in the price spread in world markets do affect relative costs.

Because the EC is expected to remain deficit in feed grains, the denaturing of wheat will not require expenditure of an equivalent amount of feed grains with consequent export subsidy costs. The EC, however, will have to forego receipt of feed grain levies on those imports displaced by denatured wheat. Alternatively, wheat exports will enable the importation of a corresponding amount of feed grains and, therefore, the receipt of feed grain levies.

Feed grain levies can be taken into account when considering either: (1) that the denaturing involves only the payment of a denaturing subsidy, but the foregoing of the collection of a levy on a corresponding amount of feed grains, or (2) that the exportation of wheat to non-EC countries—while requiring an export subsidy—makes possible the collection of a levy on a corresponding amount of feed grains. The first approach is used here, although both lead to the same conclusion.

The following tabulation is based on hypothetical data, so it does not purport to show which alternative is the less costly to the EC. However, it does permit



show which prices, if changed, affect the cost of the two alternatives:

	Cost of—	
	Exporting wheat	Denaturing wheat
Denaturing premium	--	\$20.
Wheat export subsidy	\$52.	--
Feed grain levy foregone	--	34.
Total cost	52.	54.

An adjustment by the EC in the price of wheat will change the budget cost of each alternative by a corresponding amount. For example, a \$5 increase in the wheat price would require a like increase in both the denaturing premium and the export subsidy. Adjustment in the EC price of feed grains would not affect the budget cost of either. An increase in the EC price would reduce the denaturing premium, but would cause an offsetting increase in the feed grain levy foregone. Thus, the EC is not in a position to affect the relative costs of the alternatives.

In contrast, grain exporters can influence the comparative costs through prices of grains in world markets which, in turn, affect the magnitude of EC export subsidies and levies. For example, an increase in the world wheat price lowers the budget costs of the exporting alternative by reducing the wheat export subsidy needed, but it does not affect the costs of the denaturing alternative. While an increase in c.i.f. feed grain prices does not affect costs of exporting wheat, it decreases costs of the denaturing alternative by reducing the amount of the feed grain levy foregone.

Consequently, these relationships suggest that an increase in world wheat prices, such as that resulting from the International Grains Arrangement, may encourage Community wheat exports to non-EC countries, while an increase in world feed grain prices may encourage the EC to denature wheat and thereby substitute this wheat for feed grain imports. Thus, disposition of the excess wheat by feeding in the EC or exporting to non-EC countries may be influenced by relations between world prices of wheat and feed grains.

EC policymakers do not take an either/or approach to the selection of one of these alternatives. Some wheat will be denatured and some will be exported. Also, the budgetary considerations in policy decisions in this area may be superseded by other policy goals deemed more important, and such factors as balance of payments and trade relations will be considered by the EC in determining which alternative to emphasize.

U.S. feed grain exports may be significantly affected by the substitution of EC-grown wheat for imported

feed grains. As far as overall U.S. export interests are concerned, this problem has two possible outcomes. If the EC makes greater use of wheat for feed, imported feed grains—including those from the United States—will be displaced. But at the same time, EC wheat will not compete to the same extent with U.S. wheat on other world markets. On the other hand, if the EC continues to export most of its surplus wheat, the deficit in feed grains will be greater and more feed grains will be imported, a large part of which could be supplied by the United States.

#### Italian Feed Grains Levy Discount

Before July 1967, the Italian price of corn, by far the leading feed grain, was only moderately above world market levels. During 1960-67, Italian producer prices were \$10 to \$16 a ton higher than c.i.f. prices in the United Kingdom. This indicates little protection and reflects primarily the higher freight rates to Italian ports, Italian port and unloading costs (known to be high), and interior freight charges.

Total corn imports, and particularly corn imports from the United States, increased annually during the decade ended in 1966, with but one exception. Italy's corn imports climbed from about one-third of a million metric tons in 1957 to 2.7 million in 1962 and to 5.4 million in 1966. Imports from the United States climbed from negligible amounts before 1962 to 2.4 million tons in 1966.

In July 1962 the transitional CAP for grains became effective throughout the EC. But under its terms, individual countries remained essentially free to continue past grain price levels. Italy raised its low feed grain prices only moderately by keeping variable import levies at a low level. Italian corn producers' average price increased from a \$67-68 per ton range during the 3 years ended in 1962 to a \$75-79 range the following 5 years. This increase reflected in part higher world market prices and in part the moderate variable import levy maintained during those 5 years.

This policy of moderate protection changed in July 1967 when a nearly unified CAP for grains took effect. The variable levy on corn imports into Italy averaged \$24.42 a ton during July 1967-May 1968 compared with only \$5.04 during July 1966-May 1967, a \$19.38 increase. About \$8 of this increase was due to lower world market prices, but most was reflected in significantly higher Italian corn prices. The July 1967 threshold price for corn applicable to Italy was \$77.75 a ton compared with \$68 a year earlier, an increase of more than 14 percent. Data indicate that producer prices increased by \$10-11. The corn price in Bologna, a leading and representative grain market, averaged \$90.38

a ton during September 1967-May 1968 compared with \$76.65 during September 1966-May 1967, a 17.9 percent increase.

The levy and thus the price increase would have amounted to \$10.63 a ton more if the EC had not authorized Italy to reduce the levy on corn and other feed grain imports by that amount in 1967/68. Without that discount, the Bologna price would have risen to \$101.01, a 32 percent increase over the \$76.65 price of a year earlier. The authorized reduction or discount in the levy for corn and other feed grain imports into Italy dropped to \$10 a ton for the marketing year that began on August 1, 1968, and for the year beginning on August 1, 1969. It will drop to \$7.50 during the marketing years 1970/71 and 1971/72. In effect, a drop in the levy discount is the same as an increase in the effective levy.

As now scheduled, there would be no more feed grain levy discount for imports into Italy as of August 1, 1972, and imports would be subject to the same levies as those applicable to the other EC countries.

In connection with the levy discount, the EC Council observed that Italy is to be authorized to take measures for a few years to soften the effect of the new regulation on the feed grain price level so that the Italian market can more easily adjust to the new regulation.

Most of the discount is absorbed by the inadequate, high-cost facilities at Italian ports. Thus, the corn price level in the interior of Italy now exceeds that in France despite the levy discount and it is only slightly lower than that in the other EC member countries. Without the levy discount (i.e., if \$10.63 a ton were added to the Italian price) the corn price level in Italy would have been higher than that in the other EC member countries except Luxembourg.

For the grain marketing year which began August 1, 1968, the beginning threshold price for corn in all EC countries was raised \$4.31 a ton over the beginning threshold price for the marketing year 1967/68. For Italy, the increase amounted to \$4.94 because the levy discount dropped by 63 cents from \$10.63. This further increase in the threshold price will inevitably result in corresponding increases in the Italian corn price level. While corn prices were low, Italian meat consumption per person nearly doubled from 20 kilograms in 1954/55 to 37 kilograms in 1966/67, a 5.1 percent average annual rate of increase. At 37 kilograms, meat consumption per person in Italy is only about half as much as in France and Germany. However, the steep, successive increases in corn prices that took place in 1967/68 and 1968/69 threaten to arrest the upward trend in Italian meat

consumption. The 1967 and 1968 increases in the Italian feed grain price level cannot help but stimulate domestic production and discourage import trade. The further substantial price increase of over 10 percent which will occur when the levy discount is terminated will further strengthen these uneconomic tendencies at a very high cost to the Italian consumer and to the outside world.

#### The Food Aid Convention and EC Grain Exports

Under the terms of the recently ratified Food Aid Convention, the EC is obligated to contribute 23 percent of the total 4.5 million tons, which amounts to 1.0 million tons. Calculated at the EC basic intervention price for wheat of \$98.75 per metric ton, this obligation will cost around \$100 million. Approximately \$50 million represents the amount which would have been required for export subsidies to move this wheat through commercial channels onto the world market and therefore, this amount will be charged to the Guarantee Section of FEOGA. Of the remaining approximately \$50 million, FEOGA will finance only 10 percent of expenditures under the joint Community portion of the total commitment, as opposed to the individual, national portions. The agreed-upon Community portion of 276,000 tons for 1968/69 is likely to cost FEOGA around \$15 million, for a total FEOGA expenditure under the Food Aid Convention of \$65 million.

Since barley is limited in its uses for human consumption and since the supply of EC-produced corn and sorghum is inadequate to fulfill domestic demand, the EC will rely largely upon soft wheat to fulfill its food aid obligation.

Furthermore, for two reasons, the EC will rely upon home produced soft wheat to meet this obligation. First, the EC has estimated that annual exportable surpluses of 4-5 million tons of soft wheat will be available for the 3-year duration of the Convention. Therefore, the EC will be able to effectively move one-fourth to one-fifth of its wheat surplus out of the EC under the terms of the Convention. Second, while the possibility exists of purchasing wheat from other wheat exporters for shipment under the Convention, this would necessitate the commercial sale of the EC wheat surplus, which involves financial disadvantages for the EC. For commercial export purposes, the export subsidy needed is calculated on the price c.i.f. at destination. For Food Aid Convention shipments, the price is f.o.b. at the frontier of the contributing country. Therefore, by making EC-produced wheat available as food aid, the EC will not have to bear the costs of freight necessary for subsidizing commercial exports.



## Implications for U.S. Trade

### Protective Effects of the Variable Levy on Grains

EC grain target prices are generally almost twice as high as world grain prices. These high prices greatly inflate the cost of livestock feed and thus stifle growth of the overall market for both feedstuffs and livestock products in the EC. The system therefore has adverse effects upon both foreign grain suppliers and EC livestock producers.

High grain price policies existed in the member states long before the EC's establishment, but the CAP has brought a sizable price increase for French farmers, raised feed grain prices relative to wheat, and extended the high feed grain prices to Italy. In addition to receiving price increases, French producers benefited from a substantial measure of long-term price assurance and preferred access to the grain markets of other EC countries. Furthermore the CAP removed the quantum system in France whereby producers were required to bear part of the financial burden for exporting surplus grain. Now the prices are assured without limit as to quantity produced. The CAP appears to have stimulated total French grain output, although it is too early to fully assess the CAP's production effects.

For the 1968/69 marketing year greater use of wheat for feed is encouraged by a reduction of the spread between feed grain and wheat prices and by larger denaturing payments. A major diversion of wheat from export to feed channels within the EC may have occurred in 1968/69 and may expand further if large wheat supplies on the world market make it impossible to keep moving large quantities of wheat into export. The third area of yet unrealized impact is in Italy, where full implementation of EC-wide target price levels, beginning in 1972, will be a disincentive to the Italian livestock feeding industry.

Recognizing that the full impact of the CAP upon EC supply-disposition, prices, and trade patterns has not yet been experienced, some tentative indications emerge from recent developments.

Total EC grain acreage has not changed significantly in recent years. Grain yields throughout the EC, particularly in France, have risen steadily for many years, but 1967 and 1968 yields showed a sharp increase over previous levels. Although seeming to reflect the influence of higher grain prices, increases in Germany, where support prices have declined, have been as large or larger than those in France and Italy, where support prices have risen. Weather appears to have been more responsible than any change in prices resulting from the CAP. Total EC grain output has continued upward as a consequence of improved yields.

Although intervention prices in France rose very little with the 1967/68 season, data on season-average prices indicate that the changeover to unified prices throughout the EC apparently brought an increase in market prices. Other important price developments in the first year of CAP operations included a substantial increase in the average market price of corn in Italy and significant declines in producer and market prices of grains in West Germany.

EC grain consumption continues trending upward due mainly to expanding feed use, but the rate of increase would be greater with lower price levels. Preliminary data indicate that feed use of grains in 1967/68 rose by about 1 million tons, somewhat less than the average yearly growth of 1.3 million tons over the past 10 years.

Significantly, in Italy, where grain use for feed had previously been growing rapidly, there was a decline of nearly 600,000 tons in the year following the price and levy increases of July 1967. Elsewhere in the EC there has been no apparent new trend in grain usage, although there is evidence that growth in feed usage has been limited not only by price levels affecting livestock production costs generally, but also by a new trend toward greater use of nongrain ingredients for animal feeds.

This has been demonstrated in the Netherlands, where feed use of grains dropped about 2 percent in 1967/68 while feed use of nongrain ingredients rose by an estimated 15 percent from the year before. Since 1962/63, feed use of grains has fallen by 600,000 tons, while the use of other ingredients has risen by about 1.2 million tons. Thus, in the Netherlands alone, annual grain utilization (and imports) apparently is down between one-half and 1 million tons below what it would have been without the price increases in recent years.

The expansion of wheat production in the EC while consumption remained relatively stable has resulted in a wheat surplus in recent years. Nevertheless, the volume of imports has held up fairly well, reflecting a continued need for foreign-produced hard types of wheat. Some of the increased production has moved into larger exports.

The trend of member country wheat imports has been only moderately downward during the 1960's, although an increasing proportion has come from other member states in response to the Community preferences. The value of exports and the market share held by the United States have fluctuated considerably, with 1966 levels near those of previous highs, followed by moderate declines in 1967. Other non-Community suppliers have lost ground in total, although some have gained, especially Argentina.

Coarse grain imports increased significantly from both Community and non-Community sources through



1966. As with wheat, intra-Community trade expanded more rapidly than total trade. Most exporters benefited from the expanding market and the U.S. market share remained fairly stable.

Coarse grain imports have been sharply lower since 1966. This reversal of the import trend is mainly due to the increased Community production resulting from the high yields in 1967 and 1968. But it is also a reflection of the slower growth in feed grain utilization, apparently brought on by recent price policies.

The size of the Community market for third country grain in the next few years will depend largely on what happens to grain yields in the EC. If the high yields of the past 2 years were mainly due to unusually good weather, some retreat from these levels would be expected and future yields would be more in line with longer term trends. In this event some recovery in volume of EC imports would be anticipated. However, if the 1967 and 1968 yields resulted from less volatile forces affecting productivity they could represent a new plateau from which further yield increases would take place, with future yields mostly above the extension of historical trends. This would require a more pessimistic view on export prospects to this market.

#### Threat of Unlimited Export Subsidies

Heavily subsidized exports of grain and other Community products are competing with U.S. products where the United States has established markets. A prominent example is the situation which developed with Japanese barley imports in 1968.

In March 1968, the EC announced a special subsidy of \$44 per ton on barley sales to Japan, \$3 higher than the prevailing subsidy for other destinations. Later, the subsidy on exports to Japan was increased to \$46. France used this subsidy, together with a special \$2 transportation subsidy, to sell barley to Japan at prices substantially undercutting those of the United States and other traditional suppliers in the Japanese market.

As an illustration, on July 12, 1968, U.S. barley was quoted at \$63.19 per ton in Japan, while French barley was quoted at \$56.14. Japanese Food Agency purchases of French barley from April 1 through July 10 totaled over 236,000 tons, an amount equal to half of Japan's normal yearly barley import requirements. An additional 103,000 tons of French barley were purchased by the end of December, bringing the year end total to 339,000 tons. By contrast, in the preceding 4 years, Japan had purchased only 15 tons of French barley.

During 4 Japanese fiscal years (April 1, 1964-March 31, 1968) Japanese imports of U.S. barley averaged 217,000 metric tons annually and accounted for 41 percent of all Japanese barley imports.

In the fiscal year that began in April 1968, however, U.S. exports to Japan virtually ceased, although U.S. exportable supplies were ample and unsubsidized export prices were equal to or slightly below those of recent years. From the time that French barley began entering the Japanese market until July 10, 1968, only 51,500 tons of barley had been purchased from other sources including 23,000 tons from the United States, 14,500 from Australia, and 14,000 from Canada. Australian sales recovered somewhat with an additional 97,000 tons by the end of 1968. Except for 8,000 tons of malted barley from the United States, no other non-French barley was imported into Japan. The last 1968 purchase of French barley was at a price of \$53.69 per ton, nearly \$10 below the U.S. quotation at that time.

These developments are dramatic and clearly illustrate the abrupt changes that can result in individual markets when the CAP's subsidy provisions are fully implemented.

Less dramatic changes have been observed in other markets. While direct causal links to the EC policy export subsidies are difficult to establish, Portugal, Spain, and Switzerland have increased the proportion of their grain imports from the Community, while the U.S. share has been stable or declining.

## RICE

### CAP for Rice

#### Basic Features

The CAP for rice<sup>8</sup> entered its final stage on September 1, 1967. It very closely parallels that for wheat and coarse grains in its basic features. This holds true despite the fact that France and Italy are the only rice producers in the Community.

Before August 1 each year, the EC Council establishes a basic target price, to become effective September 1 of the following year, for the Community's principal rice deficit area; namely, Duisburg, Germany. This price is the desired wholesale price for round grain brown rice in bulk, delivered and unloaded in Duisburg. Based upon the target price, a common intervention price is established annually for paddy rice in the EC's principal production areas of Arles, France, and Vercelli, Italy.

The difference between the target price and the intervention price is essentially the cost of marketing and transporting the rice from the producing areas to Duisburg. Intervention agencies are obligated to purchase all rice offered to them at this price. As in the case

<sup>8</sup> Council Regulation No. 359/67, Journal Officiel, L 174, July 31, 1967.

For other grains, intervention agencies are permitted to make preventive intervention purchases at prices above the intervention price if it appears that larger purchases will be necessary later if the preventive purchases are not made. Both the target and intervention prices are increased by monthly premiums from December through July. Production subsidies may be granted for broken rice used by the starch and brewing industries.

The key to the system which regulates trade with third countries is the threshold prices for brown and milled rice. The former is calculated so that imported rice sells on the Duisburg market at the basic target price, adjusted for quality differences. The latter is based upon the brown rice threshold price, a conversion factor, milling costs, and the value of byproducts, and it is increased by an amount which protects the EC milling industry. The threshold prices are increased by the same monthly premiums set for the basic target price. There is also a threshold price for broken rice, set using a formula incorporating the threshold prices for brown rice and for corn. These two threshold prices, with various adjustments, set the upper limit and lower limit, respectively, for the broken rice threshold price.

Rice imports from third countries are subject to a variable levy determined weekly and roughly equal to the difference between the EC threshold price and the lowest adjusted c.i.f. offer price. As with wheat and coarse grains, the lowest adjusted c.i.f. offer price is not necessarily the actual lowest price, but rather the lowest price after having adjusted all offer prices by means of quality coefficients.

The CAP for rice also provides for export subsidies. The criteria used in fixing the amount of the subsidy are rather general and give the Commission considerable leeway in its weekly decision on the subsidy. Subsidies may be differentiated by country of destination. In principle, the amount set is the difference between the prices of rice in the Community's representative rice exporting market centers and the lowest price on the market of importing countries.

Both imports and exports of rice are subject to licensing and surety deposits.

#### Evolution of CAP

The transitional regulations for rice came into effect on September 1, 1964. Since France and Italy are the only rice producers in the Community, the transitional regulations for them differed from those applicable to other members, although common policy elements were incorporated in both.

For France and Italy, intervention prices and basic target prices were fixed. These prices, which differed in

France and Italy, were gradually aligned during the transition period. While a common target price came into effect on September 1, 1967, the Council did not feel a need for a common intervention price level until September 1, 1968. Threshold prices were calculated from the target prices so as to ensure that imported rice would sell at the target price in the marketing centers of the principal deficit areas. The c.i.f. prices, from which the levy was calculated, were those offered in Dunkirk (for France) and Palermo (for Italy). On exports both to member states and to third countries, France and Italy were allowed to grant the subsidies necessary to move their rice into these markets.

A common market for rice was established in the non-producing member states on September 1, 1964. A common threshold price, approximately 5 percent above the prevailing world market price, was fixed. A single c.i.f. price, based on the lowest adjusted offer price in Rotterdam, was set, and a uniform levy, amounting to the difference between this c.i.f. price and the threshold price, was charged on all imports from nonmember countries. The levy was reduced by a standard amount for imports from France and Italy, thereby giving Community-produced rice a preference over rice from third countries.

For rice-producing associated countries and territories, mainly the Malagasy Republic and Surinam, a levy-free import quota was established. Imports over this quota were subject to the same preferential treatment given to rice moving from France and Italy into the other member states.

On September 1, 1967, the transitional regulations were replaced by those for the completed common market in rice.

## **Production and Consumption**

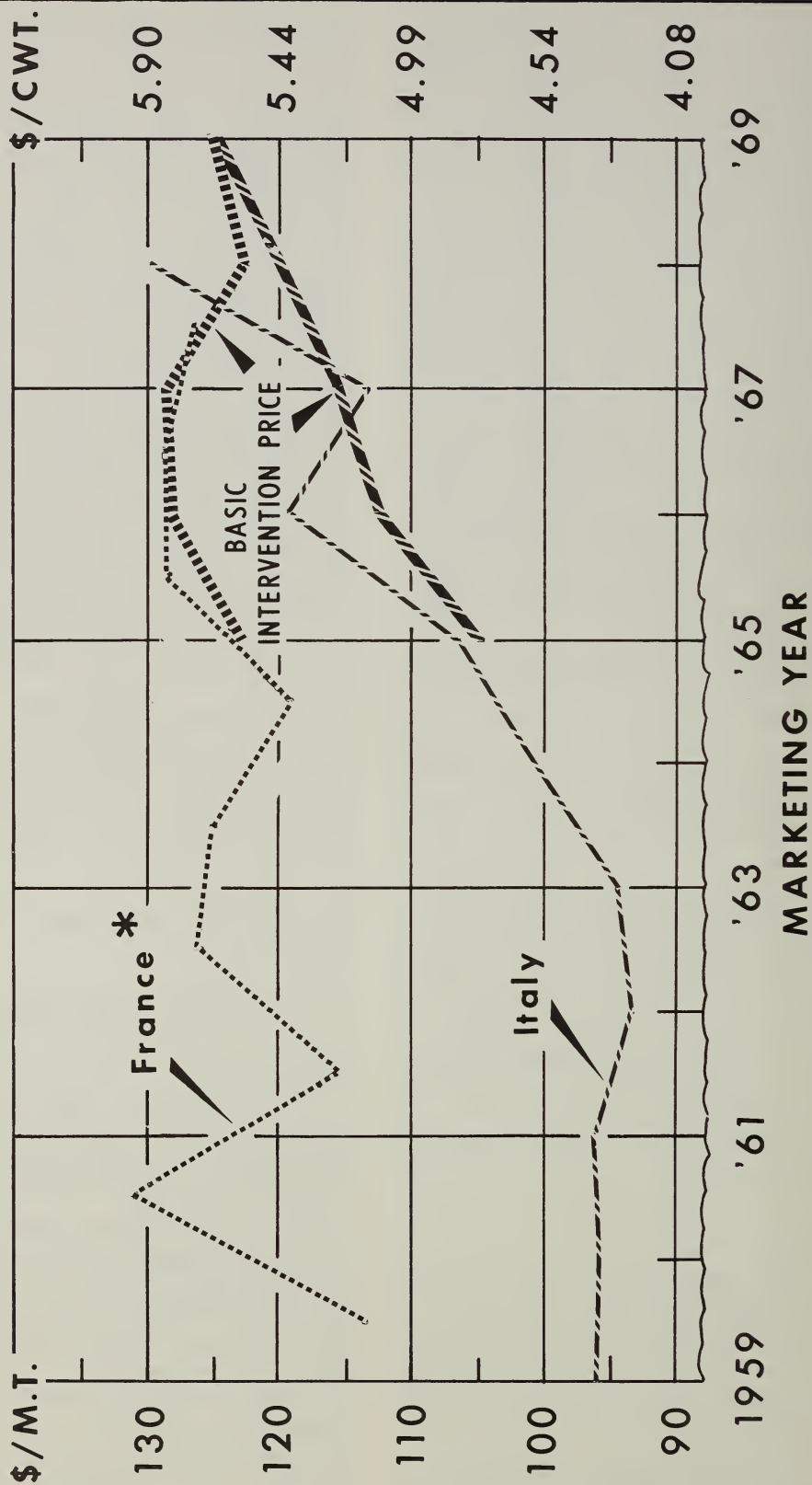
### Producer Prices

Figure 4 illustrates producer price developments for rice in France and Italy for 1959-67. It also presents the EC-established paddy intervention prices from 1964/65 through 1968/69.

The EC's common price policy for rice has closely followed the pattern for other cereals; namely, a substantial increase in prices in low-price member states and a slight reduction in prices in high-price member states. France's rice prices have traditionally been \$20-\$30 per ton above those of Italy. The French price was reduced from its historic highs of recent years by the common intervention price which took effect September 1, 1968. The Italian price has been increased consistently since the CAP came into effect in 1964.



# EC PRODUCER AND INTERVENTION PRICES FOR RICE



\* CALENDAR YEAR



The corn-rice price ratio is an important factor considered in fixing the rice price. The EC seeks to maintain a price ratio of approximately 1:1.5. The importance of this ratio is accounted for by the fact that re-producing land is convertible to corn production. The substantial increase in the corn price under the CAP therefore necessitated a like increase in the rice price if rice production was to be maintained at its present level.

#### Production Developments and Projections<sup>9</sup>

Rice production in the EC has fluctuated very unevenly, between a high of 760,000 metric tons in 1956 and a low of 486,000 tons in 1966 (table 29). However, this total disguises different trends in France and Italy. French husked rice production increased from an average of 68,000 tons in 1956-58 to an average of 80,000 tons in 1965-67. This increase was due to both higher yields and increased acreage. Between the same periods, Italian husked rice production dropped from 511,000 to 468,000 tons. This reduction was due primarily to decreased acreage.

EC officials have estimated annual average husked rice production of 630,000 tons for the 1969/70-1971/72 period. While this estimate does not exceed the volume of total production in several years since 1956, it exceeds production figures since 1963.

<sup>9</sup> Supplement to the Bulletin of the European Economic Community, No. 4-1966, Executive Secretariat of the Commission of the EC, Brussels, 1966.

The EC has assumed that the producer price changes resulting from the CAP will have no great impact on rice production as long as the corn-rice price ratio is maintained around the 1:1.5 level.

#### Supply Utilization Developments and Projections

As with rice production, consumption fluctuated considerably in 1956-67, without any apparent trend (table 29). However, a slight upward trend has been apparent in human consumption of rice, which accounts for the bulk of total consumption. This increased from an average of 580,000 tons in 1956-58 to 631,000 tons in 1965-67. Although retail prices for rice may have been shifted somewhat by the CAP, this was not expected to noticeably affect rice consumption. EC officials hold that personal income growth is a much more significant factor in determining rice consumption, since the consumer tends to shift away from potatoes and toward superior staple foods, such as rice, as his income grows.

The supply-demand balance for rice in the Community is not adequately explained by a simple calculation of the self-sufficiency ratio. This ratio indicates that the EC was 80 percent self-sufficient in rice in 1967. However, in that year, the EC exported 165,000 tons of rice and imported 312,000 tons. The exportable surplus of rice and the rather large imports of rice are explained by consumer preference for long-grain rice, not extensively grown in the EC, as opposed to round-grain rice, which accounts for most of its rice production. If rice production remains relatively stable, as foreseen by EC

TABLE 29.-EC production and utilization of rice, 1956-67

Year ending June 30	Production	Change in stock	Exports <sup>1</sup>	Imports <sup>1</sup>	Available supply or total consumption	Food consumption	Industrial use	Other uses <sup>2</sup>
					<i>1,000 metric tons</i>			
1956.....	760	-19	348	301	732	586	75	71
1957.....	597	-73	289	360	741	568	83	90
1958.....	591	-101	263	273	702	587	50	65
1959.....	698	+54	248	350	746	584	79	83
1960.....	702	+83	192	437	864	661	108	95
1961.....	573	-105	265	332	745	589	99	57
1962.....	659	-44	303	361	761	605	93	63
1963.....	625	-14	205	314	748	618	76	54
1964.....	537	+20	137	339	719	582	88	49
1965.....	598	-12	134	280	756	626	79	51
1966.....	486	-16	81	390	811	655	96	60
1967.....	578	+1	165	312	724	611	74	39

<sup>1</sup> Excludes intra-EC trade

<sup>2</sup> Includes seed, animal feed, and waste

Source: Statistique Agricole, 1968-No.1

officials, and if consumption grows in relation to income growth, the EC may continue to have an exportable surplus of round-grain rice and have a growing import requirement for long-grain rice, although no spectacular growth in imports should be expected.

## Foreign Trade

### Import Barriers

The major import barrier faced by rice entering the EC from third countries is the variable levy. The levy serves to bring the price of imported rice, adjusted for quality differences, up to the basic target price level in Duisburg, Germany. Community rice growers are therefore completely protected from the possible price-depressing effects of rice imports entering the EC market at the lower world market prices.

The ad valorem equivalent of the variable levy serves to illustrate the amount of protection the variable levy provides for EC rice growers. The following figures, averaged over the period September 1967-July 1968, apply to EC imports of polished, long-grain rice:

Threshold price	— \$229 per metric ton
Adjusted c.i.f. price	— \$168 per metric ton
Variable levy	— \$ 61 per metric ton
Ad valorem equiv.	— 36 percent

### U.S. Stake in the Common Market

The United States exported 10 percent (\$14 million) of its total rice exports to the Community in 1961-63; only 7 percent (\$18 million) in 1965-67. However, about 11 percent of the rice exported on a commercial basis went to the Community in 1965-67. Rice represents a small proportion, 1.2 percent, of all U.S. farm commodities exported to the EC.

### Source of Community Imports

The Community obtains roughly 30 percent of its rice from the United States (table 30). There was a dip in this trade in 1965, but imports were strong again in 1966 and 1967. Intra-Community trade has grown in importance, suggesting that the Community preference may have caused some trade diversion. Italy, of course, is the major exporter within the Community. The EC-Associated Overseas Members as a whole comprise the next largest supplier, with a market share of about 11 percent, with the Malagasy Republic and Surinam the major sources within this group.<sup>10</sup> The importance of

this group has shown no tendencies to increase in the last 7 years. The Community obtains about 5 percent (\$4 or \$5 million) of its total rice imports from Thailand, also a large supplier. The remaining imports come from a large number of sources.

There were three conditions that offset any negative influence that the CAP might have had on U.S. exports in 1966 and 1967. First, the world market price for rice was extremely high as a result of a less than normal harvest in the Far East in the fall of 1965 and 1966. Second, supplies in the United States were more than ample for U.S. domestic needs. And third, even though Italy is an exporter, consumers in nonproducing member states have a marked preference for high quality long-grain rice such as that produced in the United States and elsewhere but not to any extent in Italy.

Thus, the United States was able to export to the United Kingdom (and other destinations as well) large quantities of rice at relatively high prices. The United States became the world's leading exporter of rice in 1967, surpassing Thailand and Burma which have alternated as the world's leading exporter for years.

World production in 1967 increased 11 percent over 1966 and so available supplies for world trade in 1967 were higher. However, the quantity demanded for current consumption and stock replacements was also large, and prices remained high through the first few months of 1968. This should assist the United States in its trade with the Community for another year, but if Far East producers manage to increase their exportable surpluses, these will compete with U.S. exports in the EC.

### Destination of Community Exports

Although the Community is an exporter of rice, its rice is unlike that grown in the United States. It is less highly substitutable and is therefore not highly competitive. The major commercial market for U.S. rice is Japan, with increasing exports going to South Africa, Saudi Arabia, and the United Kingdom. Exports to all these markets have been growing, and any adverse effects from the CAP have been more than offset by the world shortage of rice in recent years.

### Third Country Trade That May Be Affected

Many third country exporters of rice are less developed nations. Available data are not comprehensive enough to sufficiently analyze the influence of the CAP on their exports. However, Thailand and Burma were short of rice for exporting in recent years, and U.S. exports to nearly all of its markets increased. Further

<sup>10</sup> Group includes the Overseas Countries and Territories of the EC and the Associated African and Malagasy States.

TABLE 30.--Value of EC rice imports, by source of imports, and market share for each source

Country	Average value		Change	7-year low		7-year high	
	1961-63	1965-67					
Value imported from:	<i>Mil. dol.</i>	<i>Mil. dol.</i>	<i>Pct.</i>	<i>Mil. dol.</i>	<i>Year</i>	<i>Mil. dol.</i>	<i>Year</i>
World.....	42.4	55.6	31.4	36.4	1961	63.0	1966
United States .....	12.7	18.0	41.0	9.9	1965	25.2	1967
EC.....	4.3	12.3	189.6	3.4	1963	15.2	1967
Italy.....	2.8	10.7	282.1	2.3	1963	13.1	1967
EC-AOM.....	7.0	6.1	-12.1	5.4	1965	8.4	1962
Malagasy Rep. ....	4.8	3.2	-33.7	3.0	1965	6.0	1962
Neth. Ant/Surinam ..	2.1	2.9	37.3	1.7	1961	3.7	1967
China Mainland.....	1.0	1.6	59.3	.2	1965	2.4	1967
Egypt .....	2.6	2.5	-2.4	.5	1962	5.6	1964
Brazil.....	.7	2.1	200.0	<sup>1</sup> --	1963	3.6	1966
Argentina.....	1.0	2.8	177.5	.2	1964	4.9	1966
Burma.....	1.7	1.8	6.0	<sup>1</sup> --	1967	3.5	1962
Thailand.....	3.6	4.7	30.6	1.8	1961	7.6	1964
Cambodia.....	3.9	1.1	-70.9	.2	1967	4.7	1964
All Others .....	4.0	2.7	-32.7	1.3	1965	4.5	1966
Share imported from:		<i>Percent</i>		<i>Year</i>	<i>Percent</i>	<i>Year</i>	
World.....	100.0	100.0	---	---	---	---	---
United States .....	30.1	32.3	7.3	22.2	1965	42.5	1967
EC.....	10.0	22.1	120.4	8.2	1964	29.0	1965
Italy.....	6.6	19.2	190.8	5.0	1964	26.3	1965
EC-AOM.....	16.4	11.0	-33.1	9.5	1966	16.7	1963
Malagasy Rep. ....	11.4	5.8	-49.5	5.3	1966	11.9	1962
Neth. Ant/Surinam ..	5.0	5.2	4.5	4.1	1964	6.2	1967
China Mainland.....	2.3	2.8	21.3	.5	1965	4.1	1967
Egypt .....	6.1	4.5	-25.7	.9	1962	12.2	1963
Brazil.....	1.6	3.8	134.7	<sup>1</sup> --	1963	5.7	1966
Argentina.....	2.4	5.1	111.2	.5	1964	7.8	1966
Burma.....	3.9	3.2	-19.3	<sup>1</sup> --	1967	7.1	1962
Thailand.....	8.5	8.4	-6	3.5	1967	16.1	1964
Cambodia.....	9.3	2.1	-77.9	.4	1967	10.6	1963
All Others.....	9.3	4.8	-48.8	2.8	1965	11.8	1961

<sup>1</sup> Less than \$50,000 or 0.05 percent

ore, Community imports from a large number of rice producers increased—not declined—so the pressure to find new markets by these producers cannot be very great as long as the Community is an expanding market for them.

### FEOGA Expenditures

Since the CAP for rice came into effect on September 1, 1964, an increasing portion of market support and export subsidy expenditures on rice has become reimbursable by FEOGA. As of September 1, 1967, all of these expenditures became reimbursable. The bulk of the expenditures has been for export subsidies.

The following are official EC estimates and projection of FEOGA expenditures on rice for 1964/65-1968/69:

	Export subsidies	Internal market support <sup>11</sup>	Total
1964/65	\$769,000	---	\$769,000
1965/66	47,000	---	47,000
1966/67	577,000	\$138,000	715,000
1967/68	7,000,000	---	7,000,000
1968/69	18,000,000	200,000	18,200,000

<sup>11</sup> Internal market support expenditures may be for either intervention purposes or subsidies for the use of broken rice by the starch and brewing industries. No breakdown of the total, by purpose, has been found.



## Implications for U.S. Trade

In the long run, the high variable levy on imported rice will adversely affect U.S. rice exports. Although the volume of U.S. exports to the EC may continue to increase, the impact of the CAP will tend to reduce the rate of increase. The higher prices set by the Community on most home-grown rice, and assured by means of the variable levy on imported rice, discourage any dramatic increases in per capita consumption. Therefore, import requirements may not increase significantly, and the U.S. share in the EC market will continue to fluctuate depending on the availability of rice from Burma, Thailand, and other traditional third country suppliers.

If increased rice production does occur in the EC because of a higher rice price or a shift in the corn-rice price ratio, the impact on U.S. rice exports to the EC should be minimal. Consumer preference for long-grain rice, not extensively grown in the EC, will assure third country exporters a market there.

## OILBEARING MATERIALS AND PRODUCTS

### CAP for Fats and Oils

#### Basic Features

The CAP for fats and oils<sup>12</sup> has two major commodity sections. The first deals with olives and olive products. The second deals with the principal oilseeds, oil cakes and meals, marine fats and oils, crude and refined vegetable oil, hydrogenated animal fats, and solid edible preparations of fats, including margarine. The main justification for the division along these commodity lines was that the EC is 70-80 percent self-sufficient in olive oil, while it is only 5-10 percent self-sufficient in other vegetable oils.

The CAP for olive oil establishes four prices which are used to regulate the internal market and a variable levy system for trade with third countries. The four prices are a producer target or "norm" price, a market target price, an intervention price, and a threshold price. The producer target price is to be at a level which provides "adequate" remuneration to the producer and which calls forth the desired volume of production. The market target price is set at a level which keeps olive oil competitive with other high quality, edible oils. Under normally prevailing supply and demand conditions, the producer target price will exceed the market target price.

To make up this difference, provision is made for direct payments to olive oil producers. The intervention price which is set below the market target price, is the minimum support price at which intervention agencies step in to buy supplies offered at that price. The threshold price is the minimum import price and assures that imported olive oil sells at the market target price. The market target, the intervention, and the threshold prices are increased by monthly premiums during the last months of the November-October marketing year.

Imports of olives and olive products from third countries are subject to a variable levy. The only exception is fresh and prepared olives not intended for oil production, which are subject to the Common External Tariff. The levy on nonrefined olive oil is equal to the difference between the threshold price and the lowest representative c.i.f. offer price. The levy on refined olive oil is increased by the amount considered necessary to protect the EC processing industry. Exports are subsidized if the EC price is above the world market price, and an export levy may be imposed if the EC price is below the world price.

Because the EC's self-sufficiency ratio is so low for vegetable fats other than olive oil and because of binding commitments in the GATT on other oilbearing materials and raw and processed oils, a different system was applied to these commodities.

Rapeseed and sunflowerseed are the only significant oilbearing seeds grown in the EC. A system of target and intervention prices serves to regulate the internal market for these oilseeds. These prices are increased monthly from the third to the eighth month of the July-June marketing year. To assure competitiveness with imports of oilseeds, rapeseed and sunflowerseed processors receive a deficiency payment equal to the difference between the EC target price and the world market price. Producers may also receive a premium for early sale of their products. Intervention purchases are provided if the market price falls below the intervention price.

Zero duties or the Common External Tariff, bound in the GATT, apply to imports from third countries of rapeseed and sunflowerseed as well as other oilseeds, oil cakes and meals, marine oils, hydrogenated animal or vegetable fats and oils, and related products. There is therefore no variable levy charged on these commodities. Zero duties apply on all significant oilseeds and fruits and on oil cakes and meals. Duties range from 3 to 8 percent on vegetable oils for technical or industrial use and from 9 to 15 percent on those intended for use in food. The duty on hydrogenated animal or vegetable fats and oils, which includes margarine, is 25 percent. Exports of oilseeds and oilseed products to third countries are eligible for a subsidy.

<sup>12</sup> Council Regulation No. 136/66, Journal Officiel, No. 172, September 30, 1966.

which, at most, is equal to the difference between the community price and the world market price.

The fats and oils regulations also provide for anti-dumping procedures. A countervailing duty, which the EC also terms a compensatory levy, may be charged on commodities which have benefited directly or indirectly from subsidies, premiums, or other equivalent measures in the exporting country and which cause or threaten to cause injury to EC production of these commodities.

A separate set of regulations applies to imports of fats, oilseeds, and oilbearing materials, other than olives and olive oil, from the Overseas Countries and Territories of the EC and from the Associated African and Madagascar States. All of these imports are exempt from the Common External Tariff. The regulations also provide that if imports of one of these commodities undergo "considerable modifications" relative to the present situation, the EC may take special measures to remedy the situation. It is assumed such measures would be used both in the case where imports have decreased sharply and in the case where they have increased sharply. This provides some degree of protection for both exporting and importing countries.

A special regulation governs trade between Greece and the EC in olives, olive oil, and olive byproducts. Imports from Greece are exempt from the variable levy applied to imports from other third countries. However, a special levy is applied to compensate for price differences between the Greek and EC markets.

An association agreement with Nigeria provides for a small duty-free import quota on peanut oil.

#### Evolution of the CAP

Unlike many of the commodity CAP's, the basic CAP for fats and oils did not require a transitional period. The regulation for olives and olive products came into full effect on November 10, 1966. On July 1, 1967, the entire CAP for fats and oils was put into effect.

### **Production and Consumption**

#### Producer Prices

Although the quality grades of the olive oil for which prices are presented in figure 5 may not be perfectly comparable, it would appear that the intervention price for olive oil was set at a level considerably below the prevailing producer price in Italy. However, the producer target price was set above these prevailing producer

prices. The established olive oil prices, per metric ton, for the first 3 years of the CAP are as follows:

	<u>1966/67</u>	<u>1967/68</u>	<u>1968/69</u>
Producer target price	\$1,150.00	\$1,152.50	\$1,152.50
Market target price	800.00	802.50	802.50
Intervention price	730.00	730.00	730.00
Threshold price	790.00	792.50	792.50

The common prices established for the other oilseeds have resulted in increases in producer prices in both Germany and France, which are the principal producers of rapeseed and sunflowerseed. The EC Council also decided to price these different types of oilseeds at the same levels. The target and basic intervention prices were set at \$202.50 and \$196.50 per metric ton, respectively, for the first 2 years of the CAP, 1967/68 and 1968/69.

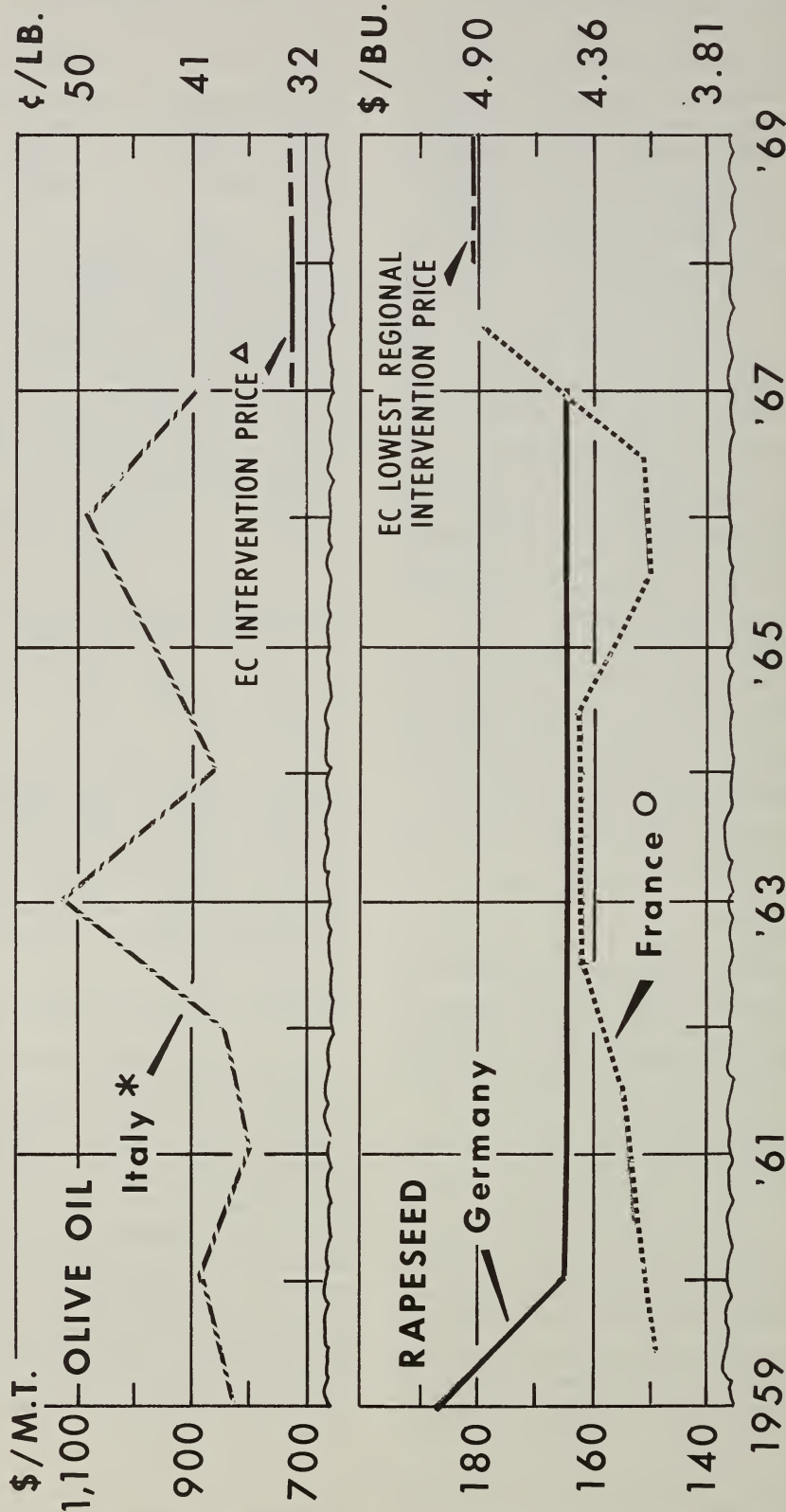
Since land resources are rather easily shifted from production of oilseeds to production of wheat or sugarbeets, the oilseed-wheat and the oilseed-sugarbeet price ratios are of considerable importance in setting the level of oilseed prices. The sugarbeet price is somewhat less important because of the EC production controls under the sugar CAP. The oilseed-wheat price ratios in Germany ranged from a high of 1.70:1 in 1951/52-1953/54 to a low of 1.52:1 in 1964/65. In France they ranged from a high of 2.02:1 in 1964/65, to a low of 1.81:1 in 1957/58-1959/60. The increase of the oilseed price in France has probably not been sufficient to entirely offset the increased wheat price, which results in a lower price ratio. The opposite situation exists in Germany, where an increased price ratio resulted from a drop in the wheat price and an increase in the oilseed price.

#### Production Developments and Projections

Olive oil production, which is concentrated in southern Italy, has increased over the years since World War II. However, the long-term trend, which is influenced by changes in prices, growing methods, and areas under cultivation, is overshadowed by large year-to-year fluctuations in production due primarily to weather. Production in 1955/56-1966/67 ranged from a low of 197,000 tons in 1956/57 to a high of 606,000 tons in 1963/64 (table 31). The average annual production was 368,000 tons. The EC does not expect its price policy to bring about any rapid increase in olive oil production.

The production of rapeseed is concentrated in Germany and France, and sunflowerseeds are grown

# EC PRODUCER AND INTERVENTION PRICES FOR OLIVE OIL AND RAPESEED



MARKETING YEAR ENDING OCTOBER 31 FOR OLIVE OIL, JUNE 30 FOR RAPESEED.

\* FINE, ACID CONTENT 2.5%.

Δ SEMI-FINE, VIRGIN QUALITY, ACID CONTENT 3%.

○ CALENDAR YEAR.



TABLE 31.--Italian olive oil production,  
1955/56 - 1966/67, raw oil

Year	Production	Year	Production
	<i>1,000 m.t.</i>		<i>1,000 m.t.</i>
1955/56. ....	209	1961/62. ....	447
1956/57. ....	197	1962/63. ....	339
1957/58. ....	400	1963/64. ....	606
1958/59. ....	296	1964/65. ....	349
1959/60. ....	330	1965/66. ....	460
1960/61. ....	431	1966/67. ....	352

Source: Statistique Agricole, 1965-No. 2, 1967-No. 5, 1968-No.3

clusively in central and southern France. Both acreage and yields have increased since 1960, resulting in an increase in total oilseed production from 234,500 tons in 1960 to 625,400 tons in 1967 (table 32). Producer prices for rapeseed have been guaranteed in recent years by France and Germany. This factor, combined with increasing yields per hectare and a relatively stable wheat price (wheat and rapeseed can be alternated on the same land), has provided a growing economic incentive for increased production. Under the grains CAP, the price of wheat has been raised in France. To the extent the

introduction of a higher intervention price under the fats and oils CAP served to maintain the ratio of the oilseed-wheat prices at the level of recent years, the EC Commission expected French oilseed acreage to remain near its previous levels. However, data for the two most recent years show increases in both acreage and yield of oilseeds in France. In Germany, the lowering of the wheat price and the increased oilseed price significantly increased the oilseed-wheat price ratio. This has encouraged increased oilseed acreage and production in Germany.

#### Supply Utilization Developments and Projections

The largest and fastest growing demand in the EC for oilseed products is for oilseed meal to be used as feed for cattle, poultry, and hogs. Between 1954 and 1967, total EC consumption of oilseed meals increased from 1.9 million tons to 8.2 million tons, a 332 percent rise (table 33). This dramatic increase in oilseed meal consumption is accounted for by three factors. The most important factor is the EC's high variable levy on corn, which makes the feeding of oilseed meal more attractive than it would otherwise be. Two other factors, identified in the

TABLE 32.--EC oilseed area, yield, and production, 1960-67<sup>1, 2</sup>

Item	1960	1961	1962	1963	1964	1965	1966	1967
<b>Area</b>	<i>1,000 hectares</i>							
Germany. ....	32.3	36.5	48.1	45.5	50.4	53.1	47.2	48.6
France. ....	90.8	114.7	139.2	140.6	163.0	205.0	209.2	242.5
Italy. ....	18.9	17.4	16.9	14.6	13.2	11.9	11.6	8.9
Netherlands. ....	5.3	4.5	4.2	4.0	3.6	4.2	5.6	5.4
Belgium. ....	0.1	0.1	0.1	0.1	0.1	0.1	--	0.5
<b>Total</b> .....	147.4	173.2	208.5	204.8	230.3	274.5	273.7	306.0
<b>Yield</b>	<i>100 kg/ha</i>							
Germany. ....	21.5	20.5	24.1	21.1	21.6	20.0	20.9	25.6
France. ....	13.6	14.0	16.0	15.2	18.1	18.5	17.2	19.3
Italy. ....	16.2	17.2	16.8	17.3	18.7	16.6	17.6	17.1
Netherlands. ....	19.8	23.2	24.6	25.0	28.4	25.9	24.4	28.4
Belgium. ....	20.5	18.8	26.0	16.8	20.1	30.7	32.0	25.6
<b>Average</b> .....	15.9	15.9	18.1	16.9	19.0	18.8	18.0	20.4
<b>Production</b>	<i>1,000 metric tons</i>							
Germany. ....	69.6	74.8	115.7	96.2	108.9	106.5	98.7	124.6
France. ....	123.8	160.5	222.4	214.4	294.6	378.7	359.1	469.0
Italy. ....	30.6	29.9	28.3	25.4	24.6	19.8	20.5	15.3
Netherlands. ....	10.4	10.5	10.4	10.1	10.3	10.9	13.7	15.4
Belgium. ....	0.1	0.1	0.2	0.1	0.1	0.2	0.1	1.2
<b>Total</b> .....	234.5	275.8	377.0	346.2	438.5	516.1	492.1	625.4

<sup>1</sup> Years ending June 30

<sup>2</sup> Includes small amounts of linseed, mustard seed, sesame seed, castor beans, soybeans, and peanuts

Source: Statistique Agricole 1968-No.5; Production Vegetale, 1968-No.14

TABLE 33.-EC production, imports, and consumption of oilseed meal, 1954-67

Year	Domestic production		Net imports	Consumption
	Oilseeds	Meal equivalent <sup>1</sup>		
	<i>Million metric tons</i>			
1954. . .	( <sup>2</sup> )	( <sup>2</sup> )	( <sup>3</sup> )	1.869
1955. . .	( <sup>2</sup> )	( <sup>2</sup> )	( <sup>3</sup> )	1.955
1956. . .	( <sup>2</sup> )	( <sup>2</sup> )	( <sup>3</sup> )	2.409
1957. . .	.320	.182	<sup>3</sup> 2.458	2.640
1958. . .	.334	.190	<sup>3</sup> 2.903	3.093
1959. . .	.256	.146	<sup>3</sup> 3.368	3.514
1960. . .	.234	.133	3.936	4.069
1961. . .	.276	.157	4.000	4.157
1962. . .	.377	.215	5.308	5.523
1963. . .	.346	.197	5.418	5.615
1964. . .	.438	.250	6.111	6.361
1965. . .	.516	.294	6.477	6.771
1966. . .	.492	.280	7.911	8.191
1967. . .	.625	.356	7.844	8.200

<sup>1</sup> Meal equivalent calculated as 57 percent of oilseed production

<sup>2</sup> Domestic production figures unavailable for 1954-56

<sup>3</sup> Net imports figures unavailable for 1954-59, but calculated as difference between domestic production and consumption for 1957-59

Source: Statistique Agricole, 1968-No.5; Foreign Agricultural Circular, U.S. Dept. Agr., FFO 10-68, July 1968; Dieter Elz, Oilseed Product Needs of the European Economic Community, 1970, U.S. Dept. Agr., IPST No. 3007, May 1967

increased 140 percent, from 43 to 103 kilograms, in the same period.<sup>13</sup> The percentage of soybean meal in the total is projected to rise from 40 percent in 1962-63 to 55 percent in 1970. By 1967, this figure had reached 51 percent.

In contrast to the rapidly growing demand for oilseed meals, demand for vegetable oils is rising slowly (table 34). Per capita human consumption has remained relatively stable since 1964, while there has been a 28 percent increase in industrial use. Human consumption of all fats and oils, including animal fats, is expected to reach 5.1 million metric tons by 1970, an increase of 11 percent above the 1961-63 level. Of this 1970 total, 2.1 million tons is represented by vegetable oils, an increase of 10 percent over the average 1961-63 level.<sup>14</sup> Because of the substitutability of vegetable oils, it is not feasible to project demand for individual oils.

The EC will remain a large importer of oilseeds, oilseed meal, and vegetable oils. The EC depends increasingly upon imports to fulfill its demand for oilseed meal. In 1955, imports met 84 percent of the demand. By 1963, this figure had risen to 97 percent where it remained through 1967. While the EC will provide between 75 and 80 percent of the increase in its oilseed meal requirements through imports of soybean meal, an increasing share of the soybean meal will be imported in the form of soybeans. EC vegetable oil

summary of a recent study done for the U.S. Department of Agriculture, are first, EC livestock numbers increased by 15 percent in the 1954-63 period, and second, the feeding rate of oilseed meal per animal

<sup>13</sup> Elz, Dieter, European Economic Community Imports: Demand for Oilseeds and Oilseed Products—A Summary, ERIC Report No. 170, November 1966.

<sup>14</sup> See page 11 of publication cited in footnote 13.

TABLE 34.-EC production and utilization of vegetable fats and oils, 1956-67

Year ending June 30	Production			Changes in stock	Exports	Imports	Available supply or total consumption	Human consumption	Industrial uses
	Total	From domestic grains & fruits	From imported grains & fruits						
	1,000 metric tons								
1956. . .	1,392	358	1,034	-65	231	923	2,149	1,759	389
1957. . .	1,517	329	1,188	+5	225	1,012	2,299	1,913	387
1958. . .	1,789	547	1,242	+102	221	838	2,304	1,926	379
1959. . .	1,583	430	1,153	-55	237	906	2,307	1,934	372
1960. . .	1,742	441	1,301	+81	272	1,105	2,494	2,087	403
1961. . .	1,866	533	1,333	+85	261	1,037	2,557	2,143	415
1962. . .	1,937	571	1,366	-7	259	899	2,584	2,187	398
1963. . .	1,919	485	1,434	-81	290	957	2,667	2,273	394
1964. . .	2,175	760	1,415	+172	211	1,074	2,866	2,454	405
1965. . .	1,973	562	1,411	-222	226	955	2,924	2,456	470
1966. . .	2,316	697	1,619	+81	295	1,057	2,997	2,515	482
1967. . .	2,221	565	1,656	-27	282	1,063	3,029	2,513	519

Source: Statistique Agricole, 1965-No. 2, 1967-No. 11, 1968-No.3

ports are likely to remain at a level of approximately 1 million tons.

## Foreign Trade

### Import Barriers

No significant barrier exists at present to imports of oilseeds and oilseed products. Zero duties, bound in the GATT, apply on all significant oilseeds and on oilseed cakes and meals. The Common External Tariff duty rates, also bound in the GATT, are applied on raw and refined vegetable oils. The compensatory levy or countervailing duty provided for in the CAP has been used so far mainly against imports of sunflower oil from Eastern Europe and the Soviet Union. In this case, evidence strongly suggests that the production and export of this oil have benefited directly or indirectly from subsidies, which therefore justifies the application of the levy, according to the CAP.

In December 1968, the EC Commission proposed to the Council of Ministers relatively high internal taxes on vegetable oils and on oil cakes and fish meal. While such taxes avoid the appearance of an import barrier, the increased prices and the decreased consumption resulting from the taxes certainly amount to an import barrier.

Discrimination against imports resulting from such taxes is quite obvious if one recalls that the EC is only 10 percent self-sufficient in vegetable oils other than olive oil and only 3 percent self-sufficient in oil cakes. Most vegetable oils would be subject to a tax of \$60 per ton. Such a tax on soybean oil, which sold at around \$180 per metric ton in March 1969, would raise its price

by 33 percent. The proposed \$30 per ton tax on oil cake and fish meal would raise the price of soybean meal by 30 percent from its 1968 average wholesale price in Hamburg of around \$100 per ton. If the EC Council of Ministers approves the tax proposal, an extremely significant import barrier will have been created.

### U.S. Stake in the Common Market

The great importance of the EC as an export outlet for U.S. oilseeds is shown in table 35. Nearly 42 percent of U.S. oilseed and oilseed product exports on a commercial basis went to the Community in the 1965-67 period. Furthermore, oilseeds and their by-products represented over 29 percent of all U.S. farm commodities exported to the community.

### Source of Community Imports

**OILSEEDS:** Community imports of oilseeds from the United States increased 67 percent between 1961-63 and 1965-67 to a level of \$319 million (table 36). Over 90 percent of these were soybeans. There was also a 25 percent increase in the U.S. market share (from 33.2 to 41.5 percent). The EC provides itself with a very small proportion of its oilseed needs, but the proportion has grown. Notwithstanding the Community's growing requirements for oilseed and the preferential treatment given the Associated Overseas Members of the Community, the dollar volume and market share for these countries as a group declined. Most of the decline was attributable to reduced peanut imports from Senegal. One contributing factor to this decline was Senegal's

TABLE 35.--Annual value of U.S. exports of oilseeds and oilseed byproducts, and all farm commodities and the relative importance of the Community as a market for oilseeds, 1965-67 average

Commodity	Value of U.S. exports to:			Exports to the Community as a share of exports to:		Relative importance of each commodity in U.S. farm exports to EC <sup>2</sup>
	World	Commercial markets <sup>1</sup>				
		Total	European Community	World (Col. 3 ÷ Col. 1)	Commercial markets (Col. 3 ÷ Col. 2)	
	(1)	(2)	(3)	(4)	(5)	(6)
		<i>Million dollars</i>		<i>Percent</i>		<i>Percent</i>
Oilseeds . . . . .	784	782	288	36.7	36.8	19.1
Soybeans) . . . . .	(727)	(726)	(266)	(36.6)	(36.6)	(17.6)
Oilseed cake & meal . . . . .	222	222	139	62.6	62.6	9.2
Vegetable oils . . . . .	199	63	18	9.0	28.6	1.2
Total . . . . .	1,205	1,067	445	36.9	41.7	29.5
All farm commodities . . . . .	6,553	4,951	1,509	23.3	30.8	100.0

<sup>1</sup> Value of exports outside Government programs

<sup>2</sup> Value of each commodity exported to the Community (Col. 3) as a share of the value of all farm commodities exported to the Community



TABLE 36.-Value of EC oilseed imports, by source of imports, and market share for each source

Country	Average value		Change	7-year low		7-year high	
	1961-63	1965-67					
Value imported from:	<i>Mil. dol.</i>	<i>Mil. dol.</i>	<i>Pct.</i>	<i>Mil. dol.</i>	<i>Year</i>	<i>Mil. dol.</i>	<i>Year</i>
World.....	574.4	768.8	33.9	549.7	1961	833.0	1966
United States.....	190.8	319.3	67.3	161.1	1961	346.0	1966
EC.....	8.7	17.5	101.7	6.0	1961	18.5	1967
EC-AOM.....	100.4	89.7	-10.7	86.9	1965	104.5	1962
Senegal.....	52.3	39.5	-24.5	32.3	1967	61.4	1962
Niger.....	14.2	23.1	62.4	12.3	1961	32.6	1967
Eastern Europe.....	14.3	28.7	100.7	10.5	1962	43.2	1967
Canada.....	16.4	25.1	52.9	9.9	1963	32.8	1966
China Mainland.....	7.8	20.0	154.6	7.0	1963	21.3	1965
Sudan.....	12.7	20.6	62.2	8.0	1961	23.2	1965
Nigeria.....	78.7	85.7	9.0	65.9	1967	105.4	1966
Indonesia.....	6.9	23.2	237.4	3.8	1963	24.2	1965
Philippines.....	68.0	72.6	6.9	57.1	1967	85.0	1966
All Others.....	69.8	66.5	-4.6	56.1	1964	74.2	1962
Share imported from:		<i>Percent</i>			<i>Year</i>	<i>Percent</i>	<i>Year</i>
World.....	100.0	100.0	---	---	---	---	---
United States.....	33.2	41.5	25.0	29.3	1961	44.3	1967
EC.....	1.5	2.3	50.7	1.1	1961	2.6	1964
EC-AOM.....	17.5	11.7	-33.2	11.2	1966	18.3	1962
Senegal.....	9.1	5.1	-43.6	4.2	1967	10.8	1962
Niger.....	2.5	3.0	21.4	2.2	1961	4.2	1967
Eastern Europe.....	2.5	3.7	50.0	1.6	1964	5.6	1967
Canada.....	2.9	3.3	14.2	1.6	1963	3.9	1966
China Mainland.....	1.4	2.6	90.2	1.2	1963	3.0	1965
Sudan.....	2.2	2.7	21.2	1.4	1931	3.3	1965
Nigeria.....	13.7	11.2	-18.6	8.6	1967	15.3	1961
Indonesia.....	1.2	3.0	152.1	.6	1963	3.4	1965
Philippines.....	11.8	9.4	-20.1	7.4	1967	13.2	1961
All Others.....	12.1	8.7	-28.8	7.8	1966	13.0	1962

increased crushing of peanuts and their shipment in the form of oil and cake. Another factor is the slow growth in Community imports of peanuts. Imports increased only 7 percent from 1961-63 to 1965-67 on a base of \$157 million. This slow growth and the rapid growth in soybean imports, amounting to 68 percent from 1961-63 to 1965-67 on a base of \$191 million, are consistent with the Community's need to import oilseeds with a high meal content. Soybeans have a meal content of over 80 percent in contrast to peanuts, which have a 43 percent meal content. Nevertheless, even with a slow overall growth rate the Community is importing significantly more peanuts from some producers; namely Niger, Mainland China, Sudan, and Nigeria.

There were also significant increases in imports between 1961-63 and 1965-67 from Indonesia (copra) and Eastern Europe (sunflowerseeds).

In mid-1967 the CAP for fats and oils became effective and the changes between 1966 and 1967 do not parallel the changes between 1961-63 and 1965-67. The value of oilseed imports declined \$65 million or 8 percent in 1967, partly because of a drop in the world

price for oilseeds and partly because Community production increased 110,000 metric tons, or 22 percent which thereby reduced the need to import. The reduction in import requirements was of course one factor leading to the decline in the world market price. Increased EC production resulted from both increased yields and acreage, which were encouraged in part by the higher prices incorporated in the CAP. Imports from the United States were practically unchanged, which resulted in a slightly higher U.S. market share. Imports were down from Nigeria due to its civil war and from the Philippines due to bad weather. Intra-Community trade was up, but only slightly.

**OILSEED CAKE AND MEAL:** As with oilseeds imports of these commodities increased greatly—from \$222 million in 1961-63 to \$408 million in 1965-67 (table 37).

The rate of increase of imports from the United States was even faster, and thus the U.S. market share increased from 22 to 38 percent. Intra-Community trade has been increasing but at a slower rate than for total

TABLE 37.--Value of EC oilseed cake and meal imports, by source of imports, and market share for each source

Country	Average value		Change	7-year low		7-year high	
	1961-63	1965-67					
Value imported from:	<i>Mil. dol.</i>	<i>Mil. dol.</i>	<i>Pct.</i>	<i>Mil. dol.</i>	<i>Year</i>	<i>Mil. dol.</i>	<i>Year</i>
World.....	221.6	408.5	84.3	155.4	1961	451.3	1966
United States .....	47.8	156.1	226.9	18.2	1961	184.6	1967
EC.....	35.8	45.1	25.8	34.0	1963	50.5	1966
France.....	5.6	6.6	18.7	3.9	1962	8.5	1966
Netherlands.....	16.7	22.1	32.1	15.4	1961	24.0	1966
EFTA.....	6.1	9.0	47.3	4.3	1961	10.5	1966
EC-AOM.....	14.1	20.8	47.6	10.5	1961	22.5	1967
Senegal.....	9.0	14.3	59.7	5.5	1961	15.7	1967
Eastern Europe.....	6.3	8.8	39.0	1.3	1964	12.1	1967
Sudan.....	7.6	12.7	68.5	5.3	1961	13.5	1966
Brazil.....	11.0	29.3	165.4	7.6	1961	36.4	1966
Argentina.....	54.7	63.2	15.6	43.2	1961	65.9	1965
Philippines.....	6.3	14.0	124.1	2.5	1961	16.3	1966
All Others.....	32.0	49.5	54.7	21.6	1961	59.1	1966
Share imported from:		<i>Percent</i>			<i>Year</i>	<i>Percent</i>	<i>Year</i>
World.....	100.0	100.0	----	----	----	----	----
United States .....	21.5	38.2	77.3	11.7	1961	43.0	1967
EC.....	16.2	11.0	-31.7	9.8	1967	23.5	1961
France.....	2.5	1.6	-35.6	1.1	1967	5.3	1961
Netherlands.....	7.6	5.4	-28.4	4.9	1967	9.9	1961
EFTA.....	2.7	2.2	-20.1	2.0	1967	3.0	1962
EC-AOM.....	6.4	5.1	-19.9	4.6	1966	6.8	1961
Senegal.....	4.0	3.5	-13.4	3.1	1966	4.5	1964
Eastern Europe.....	2.9	2.2	-24.6	.4	1964	4.0	1962
Sudan.....	3.4	3.1	-8.6	2.7	<sup>1</sup> 1962	4.1	1963
Brazil.....	5.0	7.2	44.0	3.8	1964	8.1	1966
Argentina.....	24.7	15.5	-37.3	13.5	1967	27.8	1961
Philippines.....	2.8	3.4	21.6	1.6	1961	3.9	1963
All Others.....	14.4	12.1	-16.1	11.2	1967	15.1	1963

<sup>1</sup> First of two or more years at this value

imports; its market share declined from 16 to 11 percent between 1961-63 and 1965-67. Argentina is the only other major supplier; as with intra-Community trade, its value of trade increased but its market share declined.

Total imports declined in 1967 when the CAP was instituted and oilseed production was relatively high. However, imports from the United States increased \$18 million from \$167 million in 1966, and the U.S. market share increased from 37 to 43 percent. The resulting loss in market share for other countries was spread rather evenly over a large number of countries, including intra-Community trade. This evidence suggests that the CAP through 1967 did not have any significant influence on trade patterns.

**VEGETABLE OILS:** These commodities are not a major U.S. export to the Community. Most imports from nonmember nations came from Senegal, the Congo (Kinshasa), Eastern Europe, and Argentina. By 1965-67 intra-Community trade had become important. There were no significant changes in 1967 from 1966 that

would suggest an influence of the CAP upon trade patterns.

#### Destination of Community Exports

**OILSEEDS:** The Community is not a major producer of oilseeds and is therefore not an exporter.

**OILSEED CAKE AND MEAL:** Because the Community processes oilseeds it exports oilseed cake and meal. About 60 percent of this is intra-Community trade. About 30 percent of EC exports go into EFTA nations, 8 percent each into Austria and Switzerland. Movement into these two markets has been underway for several years and the exports in 1967 were about on trend. There is nothing to suggest changes in trade patterns as a result of the CAP.

**VEGETABLE OILS:** The Community is a net importer of vegetable oil but does export significant and growing quantities. However, there is nothing to suggest that the CAP has changed trade patterns.

### Third Country Trade That May be Affected

**OILSEEDS:** Major foreign markets other than the Community for U.S. oilseeds and the average value of U.S. exports to them in 1965-67 were:

Japan	\$194 million
Spain	60 million
Denmark	41 million
Israel	25 million
Taiwan	23 million
United Kingdom	18 million

The total value of oilseed exports to these six markets is \$361 million; of this, soybeans account for \$345 million or 96 percent. In addition the United States exported \$89 million of oilseeds to Canada, most of which was soybeans, but approximately 46 percent of this was re-exported. Consequently, Canada is a market of final destination of a size about equal to that of Denmark, \$41 million.

Although EC imports of oilseeds from Nigeria and the Philippines were down in 1967, there is no indication that their oilseed exports were redirected to any major U.S. market to the detriment of the United States. Nor did there appear to be an redirecting of exports from any other Community suppliers of oilseeds to any traditional U.S. market.

**OILSEED CAKE AND MEAL:** Nearly 63 percent of U.S. oilseed cake and meal exports went to the Community in 1965-67. The major markets for the remaining share, and the average value of U.S. exports in 1965-67, were:

Canada	\$20 million
Denmark	12 million
United Kingdom	9 million
Yugoslavia	9 million
Spain	5 million

There is very little indication that oilseed cake and meal exports have been redirected by exporting nations from the Community to major U.S. markets, although pertinent import data for Yugoslavia are not available.

**VEGETABLE OILS:** Most U.S. exports of vegetable oils are on a non-commercial basis to less developed nations. Changes in these exports are only remotely associated with the CAP. As nations that import commercially develop their own crushing plants, they will increase their imports of oilseeds and decrease imports of vegetable oils. Thus, while there have been some declines in exports to commercial markets, the influence of the CAP seems only secondary.

### **FEOGA Expenditures**

Since November 10, 1966, all expenditures by members on olive oil, whether for internal market support, producer subsidies, or export subsidies, have been reimbursed by FEOGA. All other oilseeds and products became eligible for FEOGA-financed support on July 1, 1967. However, Italy was given a special allocation of \$8 million in 1964/65 for olive oil subsidy as compensation for the delay in establishing the olive oil CAP. All of the \$79 million expended in the olive oil sector in 1966/67 was also to the benefit of Italy. Olive oil expenditures reached an estimated \$145 million in 1967/68. This amount will likely increase to \$170 million in 1968/69. This rapid growth in olive oil expenditures, the bulk of which is paid out as producer subsidies, caused the EC Council in November 1968 to place an upper limit of \$165.5 million on FEOGA-financed olive oil expenditures for 1968/69. If expenditures exceed this amount, the Council will determine how to finance the excess. This is similar to the \$60 million limit placed on expenditures in the dairy sector.

Total FEOGA expenditures on vegetable fats and oils for 1964/65-1968/69 are as follows:

1964/65	\$ 8,000,000
1965/66	---
1966/67	79,250,000
1967/68	192,910,000
1968/69	260,800,000

Through 1967/68, available data indicate that, with the exception of \$1 million of processing aid to Italy in 1967/68, producer subsidies accounted for the total amount spent. In 1968/69, for the first time, export subsidy expenditures appeared in the budget, and the total were estimated at \$7.8 million.

### **Implications for U.S. Trade**

#### Oilseed and Oil Substitutability

Of major importance in any discussion of the impact of the fats and oils CAP on U.S. exports to the EC is the substitutability of the major oilseeds and oils in both edible and industrial uses. Olive oil, because of strong consumer preference and despite a much higher price, competes effectively with other high quality oils for edible purposes, although its share in the EC vegetable oil market is relatively small. The lower priced oils—such as soybean, peanut, cottonseed, sunflowerseed, and rapeseed oils, as well as most of the tropical oils—are largely substitutable for each other, although processors are reluctant to make drastic changes which might meet



distance from consumers. Therefore, the EC is expected to turn to the lowest price sources to meet its oil needs for most processed foods, cooking oils, and especially for industrial uses. Although appearing to have a secure position in the EC market for oilseeds, the United States is faced with competition from other seed producers, such as the East European countries and the tropical oil producers of Africa.

Except for use in poultry and swine production, substitutability also applies to the selection of oilseed cakes and meals for animal feed purposes. The livestock producer's primary concern in purchasing oilseeds is the cost of protein and other nutritional ingredients in the feed. The variation in nutritional composition of seed cakes and meals is reflected in market prices. Livestock producers can easily substitute one cake or meal for another in the feeding of ruminants, but they are severely limited in substituting cakes or meals in poultry and swine feeding, where soybean meal possesses the most desirable nutrient composition.

Within limits, the relative prices of oils and oilseed cake or meal are consequently very important in determining the substitutability of oilseeds. Also, the different types of oilseeds vary in their yields of oil and cake or meal. If oils are in surplus supply and the price of oil is relatively low, the oilseed with the highest yield of cake or meal will have a competitive advantage. Recently there has been a surplus of vegetable oils throughout the world. Therefore, the increasing demand for oilseed cake and meal has strengthened the demand for soybeans, which have a meal content of around 80 percent, compared with 43 percent for peanuts, which are also important in world oilseed trade.

Although oil consumption in the EC is expected to increase in line mainly with population growth, and to a lesser extent with income growth, over the next few years, demand for oilseed cake or meal for livestock feed is expected to increase considerably more rapidly. Thus, the EC's import demand will strengthen the market for oilseeds with a high yield of cake or meal. This should allow the United States to maintain its position as the major exporter of soybeans to the EC.

#### ATT Bindings

The bindings on oilseed and oil products which the United States received from the EC in the Dillon Round trade negotiations have been very significant in securing the United States a large and growing market for these products in the EC. Without such bindings, the CAP for fats and oil would have probably included some type of variable levy system to protect EC oilseed producers from foreign competition.

However, two potentially troublesome trade-regulating devices remain, in addition to the proposed tax

discussed below. The first is the countervailing duty provided for in the CAP. This has so far been applied mainly to imports of sunflower oil from the Soviet Union and other East European countries, a case in which the relatively low ratio of the oil price to the seed price appears to have justified the imposition of the duty. The second device is already being applied by Italy. This involves the use of import certificates and surety deposits on imports of oilseeds and oils. This device impedes the movement of U.S. exports into the EC, and for that reason, it has been of increasing concern to U.S. authorities.

#### The Dairy Surplus Problem

The growing surplus of butterfat in the EC has brought about policy proposals which, if approved, may be expected to have great impact on oilseed and oilseed product consumption and import demand. These proposals indicate the willingness of the EC to tax competitive products in attempts to solve its dairy problem.

The most serious threat to U.S. export interests is contained in the December 1968 Commission proposal for an internal tax of \$20-\$60 per metric ton on oilbearing materials of vegetable and marine origin and on oil cakes and fish meal. With this proposal, the Commission is attempting to increase the consumption of animal fats, especially butterfat, by increasing the price of vegetable and marine oils while subsidizing the consumption of butter. The tax on oil cakes and fish meal would encourage the EC livestock producer to feed more surplus EC-grown grains to his animals by raising the price of oil cakes and fish meal. If this proposal is approved, the effect could be a drastic reduction in U.S. exports of oilseeds and oilseed products to the EC.

#### Association Agreements

As indicated by the trade data for oilseeds, the Associated African and Malagasy States and the Overseas Countries and Territories have not shared in the expansion of the EC oilseed and oilseed product market. This may be accounted for by the EC preference for soybeans, not presently grown in the other supplying countries. The price guaranteed to these associates may provide some incentive for increased oilseed production, but it will not be in sufficient quantity nor of the right type to fulfill EC import requirements. In the process of renegotiating the Yaounde Convention in 1969, it will be possible for the EC to grant further aid for oilseeds to associated countries.

Most trade in oilseeds and oil products between the EC and Eastern Europe has been in sunflower oil. After taking into account normal processing costs and the average yield of oil from EC-grown sunflowerseeds, the Commission concluded that oil exports from the U.S.S.R. and several other East European countries were priced too low and therefore must have benefited from export subsidies or measures of equivalent effect. Since September 1967, the EC has therefore levied a compensatory tax on sunflower oil imports from these countries. This tax may serve to dampen the rate of increase in these imports and tend to restore normal competition among oils in the EC.

It should be stressed again that although these oil imports do compete with oils pressed from oilseeds imported from the United States, the value of oilseed meal or cake is increasing relative to that of oil. Soybeans, with their high yield of meal, therefore have a distinct advantage over other oilseeds.

## **POULTRY AND EGGS**

### **CAP for Poultry and Eggs**

#### Basic Features

The unified EC market for poultry and eggs came into effect on July 1, 1967.<sup>15</sup> The CAP's for poultry and eggs are based solely upon an import levy and export subsidy. There is no provision for internal market intervention, guaranteed producer prices, or production or marketing quotas. Since the EC was a net deficit area in these commodities, it was decided that a sluice-gate price plus levy, at or above which imports would enter, would provide sufficient price guarantees to the EC producer. The Community has approached self-sufficiency in chicken meat, which accounts for the bulk of poultry production, and in eggs, and there is growing concern that a CAP which relies solely upon trade controls will not be adequate to insure acceptable prices to poultry and egg producers.

A sluice-gate price and levy system protects EC producers against competition from lower priced imports. This applies to all poultry and egg products. Duty rates on poultry livers, pressed or melted poultry fat, and poultry meat and offals which are not fresh, chilled, frozen, salted or in brine are bound in the GATT, and

therefore total import charges may not exceed the level of the GATT bindings on these commodities.

The sluice-gate price, which is set quarterly, consists of two elements. The first element is an amount equal to the world market price of the quantity of feed grain assumed to be necessary to produce 1 kilogram of 1 imported commodity in a third country. As world feed grain prices fluctuate, the sluice-gate price is also changed from quarter to quarter. The second element is a lump sum representing other feed costs as well as general costs of production and marketing for 1 individual commodity.

The levy on poultry and egg imports also consists of two elements. The first element, the so-called feed grain differential, is equal to the difference between prices in the Community and on the world market for the feed grain ration required in the Community to produce 1 kilogram of slaughtered poultry or eggs. There have been complaints by third country exporters to the EC in recent years that this feed ration has not been reduced to take into account the growing feeding efficiency of the EC poultry industry, and that EC producers therefore enjoy an added margin of preference. The poultry and egg levy's second element, aimed specifically at giving the EC producer a margin of preference, is equal to 7 percent of the average sluice-gate prices applicable during the 4 quarters prior to May 1 of each year.

A supplementary levy is also provided for in poultry and egg CAP's. This levy is applied if an offer price is below the sluice-gate price, and it is in principle equal to the difference between these two prices. It may be adjusted as often as considered necessary by the authorities. If a single offer is made to the EC below the sluice-gate price, the supplementary levy is generally applied not just against that single offer, but against all shipments from all third countries of the same product.

The sluice-gate price system differs substantially from the threshold price system for grains and rice. The threshold price is a minimum import price (adjusted c.i.f. price plus variable levy), but the sluice-gate price merely represents that price which the EC feels is a fair price, taking into account the costs of production in the most efficient third countries using feed grains purchased at world market prices. For poultry and eggs, the minimum import price consists of the sluice-gate price plus the levy. If the offer price is below the sluice-gate price level, the supplementary levy serves to bring it up to that level.

Provision for the establishment of marketing norms offers the possibility for further protective measures. The marketing norms apply to quality, weight, packing, storage, transport, appearance, and labeling.

<sup>15</sup> Council Regulations Nos. 123/67 (poultry) and 122/67 (eggs), Journal Officiel, No. 117, June 19, 1967.



to make possible exports of EC-produced eggs and try at world market prices, export subsidies may be used to make up the difference between these prices and Community prices. The export subsidies are uniform throughout the Community but may be differentiated by country of destination.

An escape clause provision allows the EC to take measures if imports or exports seriously disturb or threaten to disturb the Community market for eggs or poultry.

#### Evolution of the CAP

The CAP's for poultry and eggs came into effect on January 1, 1962. From that date, trade with third countries was governed by provisions essentially the same as those described above, except that the levy element, which is currently 7 percent of the previous year's gate price, started at 2 percent and moved progressively through the transition period to the 7 percent level. The national customs duties were being progressively reduced. Intra-Community trade was governed by a levy system which incorporated a feed grains differential to account for the different feed grain prices in the member states and an element equal to the national customs duties in force in 1962. The latter element was gradually reduced through the transition period. When the market was unified on July 1, 1967, all levies in intra-Community trade were abolished.

### **Production and Consumption**

#### Producer Prices

The CAP's for poultry and eggs do not provide for administered domestic prices or any system of internal market intervention. Therefore, producer prices are determined in a relatively free market environment without the influence, however, of artificially high-priced imports. Figures 6 and 7 illustrate the development of producer prices for poultry and eggs in 1957-67.

#### Production and Consumption Developments

Poultry and egg production increased rapidly in the EC in 1950-67, with poultry showing the greatest increase, as seen in tables 38 and 39. France remains the largest poultry producer, and Germany has become the largest egg producer. The Netherlands has become the principal surplus producer in the EC and therefore is important as a supplier for Germany, which has the highest level of self-sufficiency.

These increases in poultry and egg production have taken place on such a scale and have involved such significant

structural shifts that they may justly be termed a poultry revolution. One of the major structural changes in EC agriculture has been the growth of large commercial poultry and egg production at the expense of the traditional farm flock. Through the use of American technology and primarily imported feeds, these commercial units have been expanding rapidly. While egg production has also become increasingly specialized on large farms, this change has not progressed as far as in poultry production. Poultry production has become geographically concentrated in the south and east in the Netherlands, the Ruhr Valley of Germany, and northern Italy because of ready access to feed grains from imports or domestic production. The concentration in northwestern France has largely been influenced by vertical integration and labor availability.<sup>16</sup>

Per capita consumption of poultry and eggs in the EC also rose in 1954/55-1966/67, with the greatest increase occurring for poultry (table 40). In Germany, Italy, and the Netherlands, where poultry was not previously a significant item in the average diet, consumption increased 300, 335, and 650 percent, respectively, in this period. Less dramatic but very significant increases occurred also in Belgium-Luxembourg and France. The greatest increase in egg consumption was measured in Germany at 42 percent, while changes in the other member states ranged from a decrease of 4 percent in Belgium-Luxembourg to an increase of 25 percent in Italy.

Figures on total consumption of poultry and eggs in the EC in 1954/55-1966/67 are presented in table 41.

#### Production and Utilization Projections

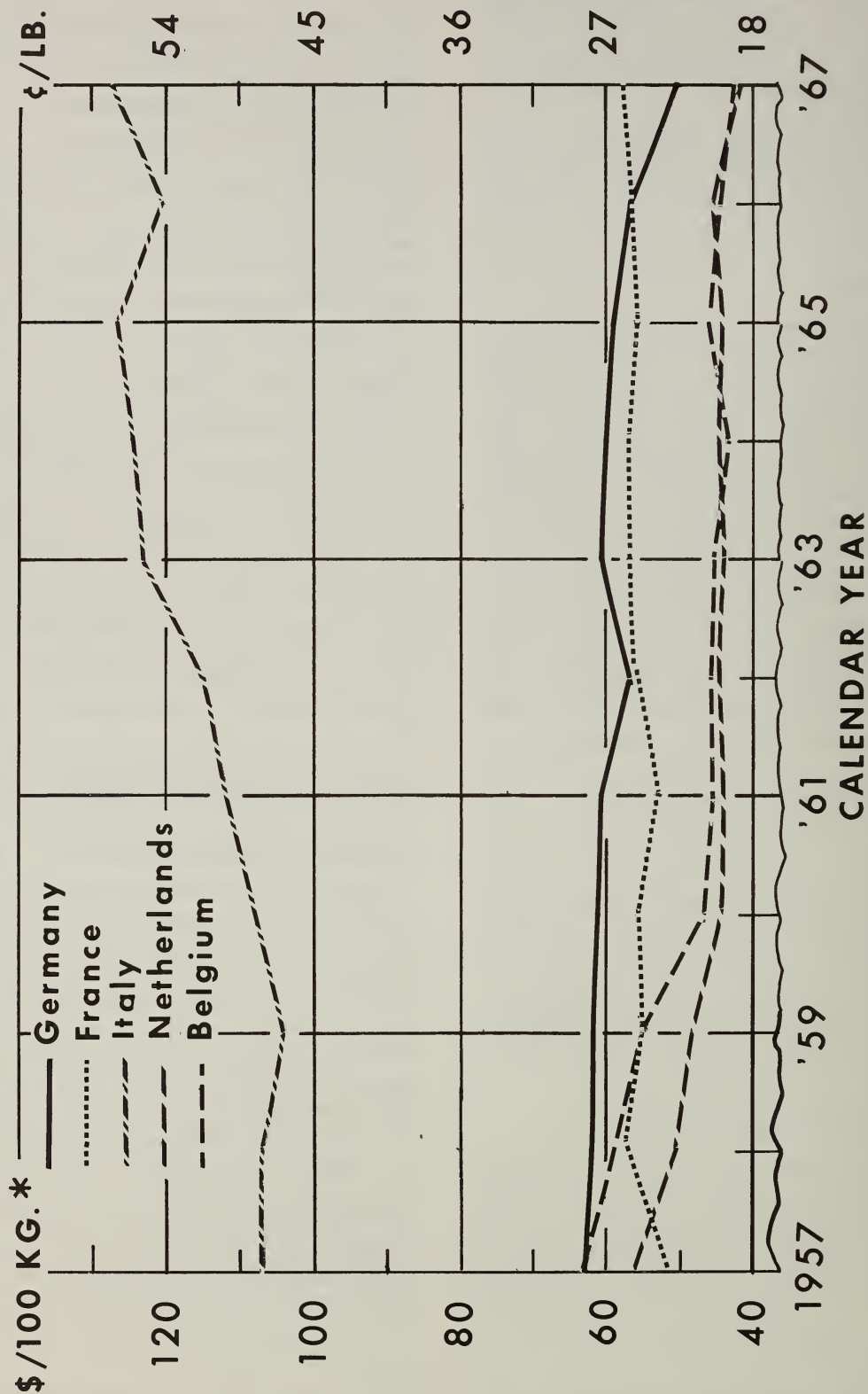
Based upon assumptions of increased income in all member states and decreased real producer and retail prices for poultry and eggs in most member states, the Michigan State University study on the EC grain-livestock economy projected continued rapid increases in poultry and egg production and consumption through 1975.<sup>17</sup> A 46 percent increase was projected for poultry production between 1964 and 1970. This increase appears reasonable in light of the 24 percent increase from 1964 through 1967. A further 31 percent increase was projected for the 1970-75 period. Germany is expected to show the largest and France and Italy the smallest gains. Egg production was projected to increase 22 percent and 13 percent in the 1964-70 and 1970-75 periods, respectively. The 6 percent increase between 1964 and 1967 would seem to indicate that the 1964-70

<sup>16</sup> See pages 88 and 90 of publication cited in footnote 6 (page 17).

<sup>17</sup> See pages 106 and 107 of publication cited in footnote 6 (page 17).

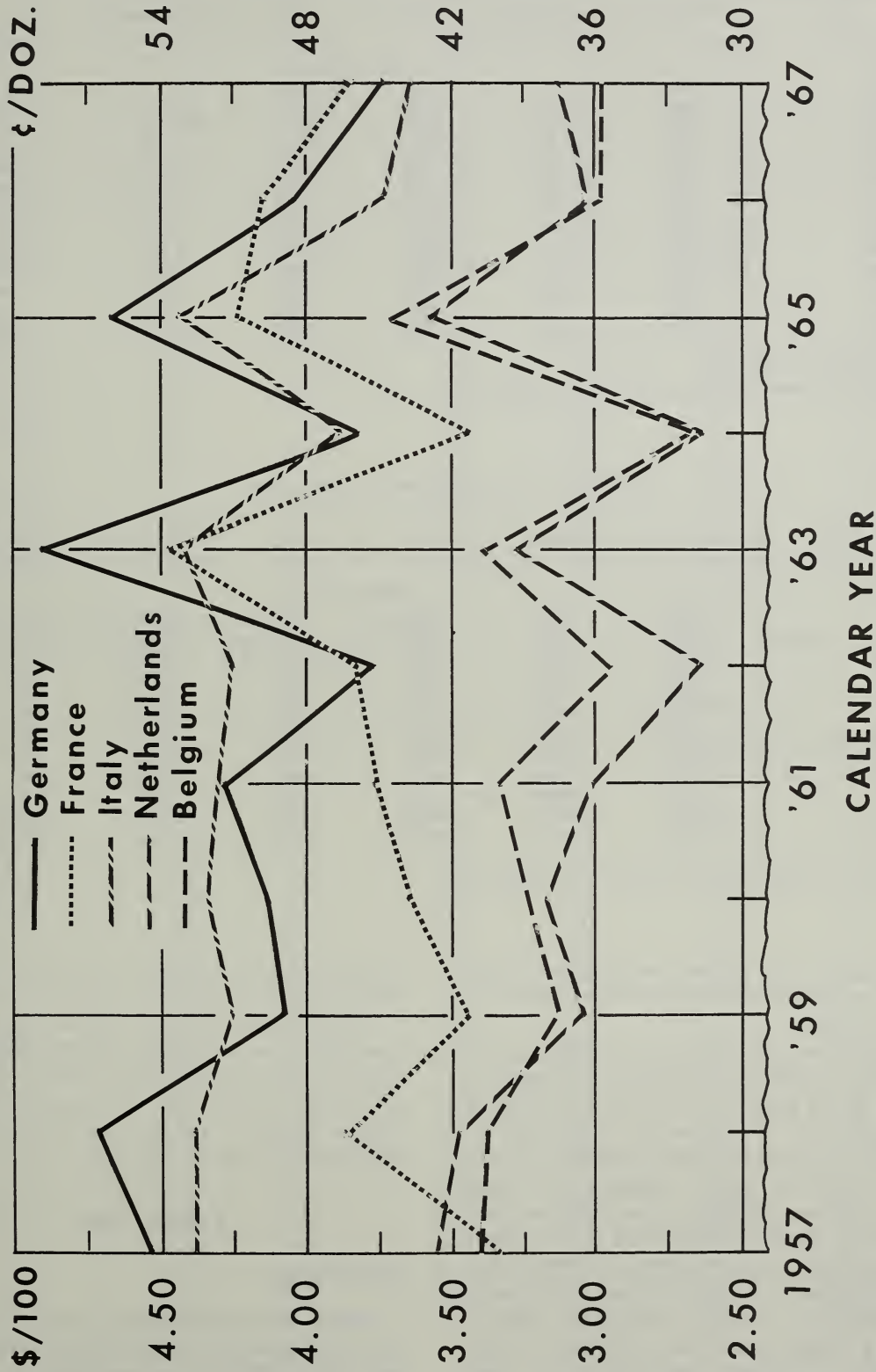


# EC PRODUCER PRICES FOR POULTRY



\* PRICES ON LIVEWEIGHT BASIS

# EC PRODUCER PRICES FOR EGGS



U. S. DEPARTMENT OF AGRICULTURE

NEG. ERS 6966 - 69 (7) ECONOMIC RESEARCH SERVICE

Figure 7

TABLE 38.-EC production of poultry meat, by country, 1950-67

Year	Total EC	Germany	France	Italy	Netherlands	Bel-Lux
	<i>1,000 metric tons<sup>1</sup></i>					
1950.....	394	52	250	58	7	27
1954.....	480	64	290	69	24	33
1957.....	571	82	330	76	42	41
1958.....	650	90	350	119	49	42
1959.....	704	96	370	133	59	46
1960.....	805	100	394	173	77	61
1961.....	882	109	420	198	83	72
1962.....	982	113	460	227	98	84
1963.....	1,074	121	500	263	105	85
1964.....	1,219	142	550	310	128	89
1965.....	1,353	152	587	368	151	95
1966.....	1,443	176	610	388	176	93
1967.....	1,517	204	640	375	196	102

<sup>1</sup> Slaughter weight basis

Source: Statistique Agricole, 1967-No. 8, 1968-No.7

TABLE 39.-EC egg production, by country, 1950-67

Year	EC	Germany	France	Italy	Netherlands	Bel-Lux
	<i>1,000 metric tons</i>					
1950.....	1,200.6	244.8	427.0	286.0	124.1	118.7
1954.....	1,415.9	345.7	400.0	319.0	219.7	131.5
1958.....	1,631.6	390.7	453.0	347.6	294.9	145.4
1959.....	1,726.8	409.8	490.0	335.3	334.9	156.8
1960.....	1,791.9	450.0	490.0	358.0	334.9	159.0
1961.....	1,886.2	477.2	515.5	368.0	344.9	180.6
1962.....	1,936.6	507.0	532.0	377.9	348.5	171.2
1963.....	2,005.2	569.8	538.0	415.6	307.1	174.7
1964.....	2,142.5	638.1	560.0	465.9	293.0	185.5
1965.....	2,102.7	680.0	530.0	481.8	242.2	168.7
1966.....	2,210.1	735.4	558.0	505.3	238.3	173.1
1967.....	2,265.0	786.7	591.0	495.3	210.2	181.8

Source: Statistique Agricole, 1967-No.11, 1968-No. 10

projection was too high. Germany was expected to have the largest increase, while the Benelux countries showed the smallest increase.

Consumption was also projected to increase rapidly through 1975. EC poultry consumption was expected to increase 41 and 22 percent in the 1964-70 and 1970-75 periods, respectively. The 20 percent consumption increase actually measured in 1963/64-1966/67 makes the 41 percent projection appear reasonable. The largest 1964-75 increase was projected for the Netherlands and the smallest for France. Increases of 23 and 14 percent in egg consumption were projected for 1964-70 and 1970-75, respectively. The largest increase was projected for the Netherlands and the smallest for Belgium-Luxembourg. Actual consumption developments since 1963/64 seem to indicate that both the EC total

projection and the individual member state projections may have been too high.

The net result of the projected production and consumption was a decrease in the EC's poultry deficit and an increase in its egg deficit. However, these deficits are of such a small order of magnitude that, for all practical purposes, the EC may be expected to be self-sufficient in these commodities.

## Foreign Trade

### Import Barriers

Imports of poultry and eggs into the EC are regulated by the sluice-gate price and variable levy system incorporated in the CAP's for these commodities. Protection for



TABLE 40.-Annual EC consumption of poultry and eggs, per capita, 1954/55-1966/67

Year	Total	Germany	France	Italy	Netherlands	Bel-Lux
<i>Kilograms</i>						
<b>Poultry</b>						
1954/55.....	<sup>1</sup> 3.1	1.7	<sup>2</sup> 6.7	1.7	0.6	<sup>2</sup> 4.0
1955/56.....	3.2	1.7	7.0	1.7	0.5	4.3
1956/57.....	3.5	2.0	7.2	2.0	0.7	4.6
1957/58.....	3.8	2.4	7.5	2.3	0.8	5.0
1958/59.....	4.3	3.0	7.8	2.8	1.2	5.3
1959/60.....	4.9	3.9	8.4	3.3	1.6	6.0
1960/61.....	5.4	4.4	8.8	3.9	2.0	7.4
1961/62.....	6.1	5.6	9.0	4.4	2.1	8.5
1962/63.....	6.1	5.1	8.8	5.0	2.8	8.1
1963/64.....	7.1	5.6	10.9	6.0	3.2	8.2
1964/65.....	7.6	6.0	10.8	7.3	3.8	7.8
1965/66.....	8.1	6.3	12.0	7.4	4.4	7.6
1966/67.....	8.3	6.8	12.3	7.4	4.5	6.8
<b>Eggs</b>						
1954/55.....	<sup>1</sup> 9.5	10.0	<sup>2</sup> 10.0	7.5	9.8	14.0
1955/56.....	9.6	10.0	10.0	7.8	9.9	13.0
1956/57.....	10.2	11.3	9.9	7.8	11.2	13.1
1957/58.....	10.5	11.6	10.6	8.3	10.4	14.0
1958/59.....	9.1	12.5	10.7	8.4	11.1	14.4
1959/60.....	11.4	13.1	11.1	8.7	11.8	14.3
1960/61.....	11.5	13.1	11.2	9.1	10.8	14.7
1961/62.....	11.7	13.6	11.4	9.4	12.3	13.9
1962/63.....	11.4	12.7	11.4	9.6	11.9	12.8
1963/64.....	11.8	13.4	11.4	9.8	13.5	14.1
1964/65.....	11.7	13.4	11.0	9.7	12.4	13.3
1965/66.....	<sup>1</sup> 11.8	13.7	-----	9.7	12.0	13.6
1966/67.....	-----	14.2	-----	9.4	11.6	13.5

<sup>1</sup> Based upon data partially estimated<sup>2</sup> Estimated

Source: Food Consumption Statistics, 1954-1966, OECD, 1968; Statistique Agricole, 1963-No. 1, 1964-No. 5, 1966-No. 7, 1967-No. 11, 1968-No. 7, 1968-No. 10

TABLE 41.-EC consumption of poultry and eggs, by country, 1954/55-1966/67

Year	Total	Germany	France	Italy	Netherlands	Bel-Lux
<i>1,000 metric tons</i>						
<b>Poultry</b>						
1954/55.....	504	85	<sup>1</sup> 296	80	6	<sup>1</sup> 37
1955/56.....	525	89	310	81	5	40
1956/57.....	578	106	325	96	8	43
1957/58.....	635	130	338	111	9	47
1958/59.....	720	164	357	136	13	50
1959/60.....	834	217	380	162	18	57
1960/61.....	934	245	402	194	23	70
1961/62.....	1,058	315	417	220	25	81
1962/63.....	1,075	293	421	250	33	78
1963/64.....	1,272	325	526	304	38	79
1964/65.....	1,376	350	527	377	46	76
1965/66.....	1,474	372	590	382	54	75
1966/67.....	1,532	409	611	388	57	67
<b>Eggs</b>						
1954/55.....	1,549	513	<sup>1</sup> 442	361	105	128
1955/56.....	1,583	517	444	376	107	120
1956/57.....	1,692	592	446	395	123	121
1957/58.....	1,759	615	482	405	115	131
1958/59.....	1,543	671	493	411	125	135
1959/60.....	1,942	724	504	428	135	135
1960/61.....	1,977	735	513	453	125	140
1961/62.....	2,032	769	531	471	144	133
1962/63.....	2,013	726	543	481	142	123
1963/64.....	2,104	777	549	496	162	136
1964/65.....	2,105	785	534	497	151	130
1965/66.....	2,146	816	<sup>1</sup> 534	504	148	133
1966/67.....	-----	848	-----	488	146	134

<sup>1</sup> Estimated

Source: Same as table 40

the EC poultry and egg producer is provided first of all by the basic levy on imports. The sluice-gate price is established as the official EC estimate of what the offer price should be in the EC for poultry and eggs produced in the most efficient third countries. The fact that a supplementary levy, equal to the difference between the sluice-gate price and the offer price, has so often been applied on imported poultry and eggs, even in the absence of the use of export subsidies by third countries, would seem to indicate that the sluice-gate price is an unrealistically high estimate of what offer prices from efficient third country producers should be.

Two other features of the poultry and egg CAP's constitute further barriers to imports. First, the sluice-gate prices and basic levies on poultry parts are arrived at by multiplying the prices and levies on whole birds by a series of coefficients. Because some of these coefficients are set unrealistically high, the calculated sluice-gate prices for poultry parts are also unrealistically high. Therefore, supplementary levies are often applied on parts where they are not justified by the level of the offer prices. Second, the CAP's allow the EC authorities to establish and change the supplementary levies whenever this appears necessary. This results in a high degree of uncertainty for third country exporters as to the final price at which their produce will move into the EC market.

The protective effect of the total levies on poultry and eggs may be illustrated by calculating the ad valorem equivalent of the levies. In December 1968, the following applied to EC imports of U.S. chicken legs and thighs:

Offer price, Hamburg . . . . .	39.00¢/lb.
Basic levy . . . . .	10.30¢/lb.
Supplementary levy . . . . .	7.94¢/lb.
Total levy . . . . .	18.24¢/lb.
Ad valorem equiv. . . . .	47 percent

In January 1968, the situation with regard to EC imports of fresh eggs from Denmark was as follows:

Offer price, German border . . . . .	37.25¢/kg.
Basic levy . . . . .	12.12¢/kg.
Supplementary levy . . . . .	7.50¢/kg.
Total levy . . . . .	19.62¢/kg.
Ad valorem equiv. . . . .	53 percent

#### U.S. Stake in the Common Market

The value of U.S. poultry exports to the Community was only \$21 million in 1965-67, down 45 percent from 1961-63 and down \$28 million from \$49 million in 1962, a peak year for this trade. While the value of these

exports is not great relative to some other commodities the United States had a rapidly expanding market in the Community between 1958 and 1962. The rate increase in these years indicated that poultry exports to the Community could become one of the United States' most significant agricultural exports. About 63 percent of U.S. poultry exports went to the Community in 1961-63 but only 46 percent in 1965-67.

The United States exported \$13 million of eggs to the Community in 1965-67; only \$1.6 million or 12 percent went to the Community. This represents a sharp decline from \$3.8 million in 1961-63.

#### Sources of Community Imports

**POULTRY:** Community members imported nearly \$150 million of poultry in 1965-67 (table 42). Germany accounted for almost all of this, and the Netherlands was by far the largest supplier. In descending order the next largest suppliers were the United States, Belgium, Luxembourg, and Poland.

While imports of poultry by Germany have been growing, there have been fundamental changes in the source of supply. In 1961-63 the United States rivaled the Netherlands as the leading source. By 1965-67 imports from the United States were only a fifth of those from the Netherlands, and imports from Denmark were reduced considerably also. Denmark in 1961-63 had been the third largest supplier.

The CAP's for grains and poultry were both instituted on July 30, 1962. As noted in the analysis of grain trade there were no sharp changes in the trade patterns for grains at the beginning of the transitional period, but the opposite was true for poultry. Imports of poultry from the United States were down sharply in 1963 from the 1962 level. Imports from Denmark did not immediately decline, but fell sharply by 1965.

There is evidence that the Common Market was becoming self-sufficient in poultry, specifically in chicken meat, and would have become so whether or not the CAP went into effect. The sharp decline in imports from the United States and Denmark, and the very significant increases in intra-Community trade suggest, however, that as a result of the CAP the day was hastened when the Community would become self-sufficient in poultry. In any case, by 1967 the United States supplied only 10.5 percent of the market compared with a peak of 36 percent in 1962, and Denmark supplied only 1.4 percent, also a substantial decline from a peak of 24 percent in 1961. Meanwhile, intra-Community trade had moved from 31 percent of the total in 1961 to 76 percent in 1967.

TABLE 42.--Value of EC poultry imports, by source of imports, and market share for each source

Country	Average value		Change	7-year low		7-year high	
	1961-63	1965-67					
Value imported from:	<i>Mil. dol.</i>	<i>Mil. dol.</i>	<i>Percent</i>	<i>Mil. dol.</i>	<i>Year</i>	<i>Mil. dol.</i>	<i>Year</i>
World.....	128.9	149.1	15.6	117.8	1961	154.2	1965
United States.....	37.6	20.6	-45.3	14.7	1967	52.4	1962
EC.....	48.1	104.9	118.0	36.6	1961	107.6	1966
Belgium-Luxem- bourg.....	3.9	16.1	311.1	2.0	1961	17.2	1966
France.....	5.4	7.9	45.1	1.1	1961	11.7	1964
Netherlands.....	38.5	79.6	106.5	33.4	1961	82.4	1967
EFTA.....	26.5	5.0	-80.9	2.0	1967	27.9	1961
Denmark.....	26.4	5.0	-81.0	2.0	1967	27.8	1961
Eastern Europe.....	16.2	18.2	12.4	15.9	1963	19.2	1966
Poland.....	7.2	9.4	31.1	6.7	1962	10.0	1966
Hungary.....	5.7	5.6	-2.2	4.6	1967	6.2	1965
All Others.....	.6	.4	-28.7	.1	1964	.8	1962
Value imported from:			<i>Percent</i>		<i>Year</i>	<i>Percent</i>	<i>Year</i>
World.....	100.0	100.0	----	----	----	----	----
United States.....	29.2	13.8	-52.7	10.5	1967	36.0	1962
EC.....	37.3	70.4	88.5	31.1	1961	75.7	1967
Belgium-Luxem- bourg.....	3.0	10.8	255.5	1.7	1961	12.1	1967
France.....	4.2	5.3	25.5	.9	1961	8.9	1964
Netherlands.....	29.9	53.4	78.6	26.4	1962	59.1	1967
EFTA.....	20.5	3.4	-83.5	1.5	1967	23.7	1961
Denmark.....	20.5	3.4	-83.6	1.4	1967	23.6	1961
Eastern Europe.....	12.6	12.2	-2.8	11.2	1962	13.9	1961
Poland.....	5.6	6.3	13.4	4.6	1962	7.1	1964
Hungary.....	4.4	3.7	-15.5	3.3	1967	4.7	1961
All Others.....	.4	.3	-38.4	.1	1964	.6	1962

EGGS: Nearly all EC egg imports are by Germany and Italy. The major sources of supply are other member nations, Denmark, Eastern Europe, and Israel. Few eggs are imported from the United States.

Total egg imports declined between 1961-63 and 1965-67, including intra-Community trade, as each member nation increased its self sufficiency in this commodity. In fact, intra-Community trade declined more than trade with any other source in terms of dollars (table 43). With one or two minor exceptions, imports from every source declined.

Since intra-Community trade declined along with imports from other sources, the growth in self-sufficiency in each nation was apparently more important in reducing imports from third countries than a shift to imports from other member nations behind a protective levy. The levy obviously offers protection to production in each member state, and the distinction made here is not to minimize the levy's protective nature.

#### Destination of Community Exports

POULTRY: Between 75 and 90 percent of the poultry exported by EC members goes to other member

states; exports from the Netherlands to Germany alone account for two-thirds of the total. Between 1961 and 1967 intra-Community trade increased, very much to the detriment of the United States.

Through 1967 the only major non-EC market for Community exports was Switzerland. U.S. exports to Switzerland declined from nearly \$7 million in 1961 to practically nothing in 1967. There were several reasons. First, total poultry imports by the Swiss showed a slight but steady decline; second, Community exports to this market increased sharply between 1962 and 1964; and third, Swiss imports from Eastern Europe (primarily Poland and Hungary), although small, grew steadily from 1963 to 1967. To regain a fair share of the Swiss market the USDA Export Payment Program was reactivated in 1968. This program enables U.S. exporters to compete in European markets where other countries have undersold U.S. chicken through subsidy programs.

EGGS: About 90 percent of the eggs exported by EC members remain within the Community. Of the total eggs exported, between 70 and 80 percent go from the Netherlands to Germany. The only other destinations of any significance for Community eggs are Austria with \$2-3 million, and Switzerland with \$3-5 million. The



TABLE 43.--Value of EC egg imports, by source of imports, and market share for each source

Country	Average value		Change	7-year low		7-year high	
	1961-63	1965-67					
Value imported from:	<i>Mil. dol.</i>	<i>Mil. dol.</i>	<i>Pct.</i>	<i>Mil. dol.</i>	<i>Year</i>	<i>Mil. dol.</i>	<i>Year</i>
World .....	189.9	99.3	-47.7	86.5	1967	214.0	1961
United States .....	3.7	1.7	-55.5	1.2	1967	4.1	1961
EC .....	108.3	65.8	-39.2	62.5	1967	113.5	1961
Belgium/Luxem- bourg .....	14.2	16.6	16.7	10.1	1961	20.2	1967
France .....	1.7	4.5	162.2	.4	1962	5.7	1967
Netherlands .....	91.8	43.7	-52.4	35.6	1967	100.5	1961
EFTA .....	20.0	6.4	-68.2	5.0	1967	27.1	1961
Denmark .....	17.4	2.5	-85.7	1.2	1967	25.1	1961
Eastern Europe .....	36.9	13.2	-64.3	9.2	1967	45.3	1961
Poland .....	20.0	4.1	-79.6	2.3	1966	24.8	1961
Bulgaria .....	6.2	2.0	-68.1	.8	1967	6.4	1963
China Mainland .....	3.7	5.6	52.0	2.4	1961	7.3	1966
Israel .....	6.6	2.8	-57.8	2.0	1966	8.6	1961
All Others .....	10.7	3.9	-63.9	1.8	1967	13.0	1961
Share imported from:	<i>Percent</i>				<i>Year</i>	<i>Percent</i>	<i>Year</i>
World .....	100.0	100.0	---	---	---	---	---
United States .....	2.0	1.7	-14.8	1.3	1965	2.4	1966
EC .....	57.0	66.3	16.3	53.0	1961	73.6	1964
Belgium/Luxem- bourg .....	7.5	16.7	123.1	4.7	1961	23.3	1967
France .....	.9	4.6	401.6	.2	1962	6.5	1967
Netherlands .....	48.3	44.0	-9.0	41.2	1967	55.2	1964
EFTA .....	10.5	6.4	-39.2	5.8	1967	12.6	1961
Denmark .....	9.1	2.5	-72.7	1.3	1967	11.7	1961
Eastern Europe .....	19.4	13.3	-31.6	9.2	1964	21.2	1961
Poland .....	10.5	4.1	-61.0	2.3	1966	11.6	1961
Bulgaria .....	3.3	2.0	-39.1	.9	1967	3.7	1963
China Mainland .....	1.9	5.7	190.8	1.1	1961	7.6	1966
Israel .....	3.5	2.8	-19.2	2.1	1966	4.0	1961
All Others .....	5.7	3.9	-30.9	2.0	1967	6.1	1961

importance of these exports to the Community appears to be declining, not increasing. U.S. exports to these countries have been negligible.

#### Indirect Effects of the Variable Levy on U.S. Exports

**POULTRY:** U.S. poultry exports to foreign markets other than the Community fluctuated closely around \$25 million between 1961 and 1967. Most of these exports went to Switzerland, Canada, Japan, and Hong Kong. Exports from Eastern Europe, primarily from Poland and Hungary, to Switzerland appear to have partially displaced U.S. exports there, although East European exports were still relatively small. Furthermore, East European exports to the Community through 1967 had not been hurt to any great extent, which suggests that there was no great pressure on them to look for new markets. Danish exports on the other hand have been redirected to Switzerland after being impeded from entering the EC.

U.S. exports to Canada and Hong Kong have fluctuated but have shown no downward trend; exports to Japan have been increasing. However, data indicate that the U.S. market shares in Japan and Hong Kong have decreased due to subsidized competition for the whole broiler market primarily from Denmark, but to a lesser degree from the EC. Therefore, the EC variable levy has adversely affected the United States in these markets, also.

**EGGS:** Major markets outside the Community for U.S. eggs are Canada and Venezuela. Because of the high cost of transporting eggs and the proximity of Canada to the United States, it has been difficult for other egg exporters to compete with the United States in this market. U.S. exports to Canada between 1961 and 1967 increased, although not at a steady pace. In the future Denmark, Poland, and Bulgaria might compete there since their exports to the EC have declined. No such competition has developed yet.

U.S. exports to Venezuela were down from \$6 million to practically nothing in the time period under study. The decline was gradual and resulted from increased production in Venezuela. It was in no way related to the CAP.

## FEOGA Expenditures

Member state expenditures on poultry and eggs became eligible for partial reimbursement from FEOGA when the CAP's came into effect on July 30, 1962. An increasing share of the expenditures was financed by FEOGA from that date, and as of July 1, 1967, all expenditures were reimbursed. Since there is no provision for internal market intervention in poultry and eggs under the CAP, all expenditures have been for export subsidies.

Actual expenditures for 1962/63-1966/67 and estimated expenditures for 1967/68-1968/69 are as follows:

	<u>Poultry</u>	<u>Eggs</u>
	<i>Thousand dollars</i>	
1962/63	164	551
1963/64	700	968
1964/65	1,250	1,210
1965/66	2,105	1,150
1966/67	2,872	711
1967/68	5,000	2,000
1968/69	5,700	1,800

## Implications for U.S. Trade

### Protective Effects of the Levy System

There is no question but that the Community's CAP's for poultry and eggs have provided a protective umbrella under which EC producers have been assured profitable application of American poultry technology to poultry and egg production. The sluice-gate price and levy system provided absolute protection from lower priced imports when it became effective in mid-1962. The sharp drop in U.S. exports to the Community dramatically illustrates this fact.

However, EC poultry production figures (table 38) for the late 1950's and early 1960's point out the rapid development of the domestic poultry industry through the application of the new technology. Germany, which was the major market for U.S. poultry, lagged somewhat behind in this production race as consumer demand rapidly grew. However, once a price advantage was created for EC-produced poultry by the CAP, it was inevitable that this market would be lost for the United

States and the supply source would shift to surplus production member countries.

Therefore, it was a combination of the EC's poultry revolution and the EC levy system which so drastically reduced U.S. poultry exports. Without the levy system, the increase in production would have been greatly slowed, but probably not halted.

An EC member with liberal import policies, such as Germany, would probably have turned to closer European sources of supply, and these sources would have probably found it profitable, if necessary to compete with U.S. exports, to subsidize exports to Germany, as the EC is doing today to Austria and Switzerland.

However, a compensating advantage for the United States has resulted from the EC poultry revolution. Along with the imports of American poultry technology came increased imports of U.S. feed grains and other feedstuffs for use in poultry production. Therefore, even though the Community market for the finished product has been greatly diminished, the United States may continue to benefit by supplying a major input to poultry production as long as the EC remains a feedstuff deficit area.

If the EC would adjust the sluice-gate price, feed conversion ratios, and dressing-out coefficients to levels which more realistically reflect actual poultry production and marketing costs and conditions in efficient third country producers, the United States could expect to increase its poultry exports to the EC. These exports would most likely consist of large turkeys, parts from large turkeys, certain chicken parts, and further processed turkey and chicken items, such as rolls and roasts. U.S. poultry processors have demonstrated great ingenuity in developing new further processed and convenience poultry items for which there is growing consumer demand in the EC. However, present levels of sluice-gate prices and levies preclude expanding development of this market by the United States.

### Subsidized EC Poultry Exports in Third Country Markets

The EC's willingness to grant unlimited subsidies on poultry exports to third countries, where they compete with U.S. exports, is an issue of growing concern. The EC perhaps views these subsidized exports mainly as a boost to poultry producers' incomes, which have lagged at times as poultry prices dropped. Demand is created in third country markets by the cheap offering prices, and the EC thus gains a foothold in these markets.

This foothold will be of even greater importance as EC production continues its rapid increase and a larger supply pouring onto the domestic market threatens producer incomes even further as prices drop. The EC



then may rely more extensively on exports to relieve this downward pressure.

The U.S. market in Switzerland has been noticeably affected by the EC's export offensive. The U.S. market share dropped and exports declined in absolute terms through 1967. Only through resort to poultry export subsidies in 1968 was the United States able to increase its share of the Swiss market from a low of 3 percent in 1967 to 13 percent in 1968. As EC poultry production continues to grow, the United States may expect to face increasing competition from subsidized EC poultry exports, which may force a continuation of export payments on U.S. shipments.

In the long run, the rapidly mounting expenditures from FEOGA may force the EC to reconsider its granting of unlimited export subsidies, including those for poultry, even though the poultry subsidies have not so far represented a major expenditure from FEOGA. This reassessment may, in fact, come in the near future. The EC is then likely to retreat somewhat from its subsidized export offensive, at least in commodities such as poultry in which the Community is not yet self-sufficient.

LIVESTOCK AND MEAT

CAP for Beef and Veal

Basic Features

As of July 29, 1968, the common market for beef and veal and their products took effect, although it was legally unified on July 1, 1968. The CAP provides for intervention and orientation prices domestically with trade regulated by duties plus a levy system tied to the orientation price.<sup>18</sup>

The key to the CAP's domestic policy for beef and veal is the orientation or guide price set. The orientation price is not a guaranteed producer price, but an average price considered desirable for producers to receive for all their output under normal supply and demand conditions. The CAP is therefore aimed at preventing market prices from varying too much from the orientation price. The orientation price serves as a benchmark to which the intervention prices and the import levies are fixed.

There are actually two intervention prices for mature cattle in the CAP. The first price is at a level equal to 98 percent of the orientation price. If the cattle price on representative markets of the Community falls below this level, and if simultaneously, the price of specified meat products falls below a level calculated as normal in

relation to the orientation price, intervention *may* take place in those markets.

If the price for mature cattle falls to below 98 percent of the orientation price, intervention *must* take place. The allowable intervention consists of either aid to private storage or purchases by intervention agencies. There are no provisions for intervention in the calf market.

Trade with third countries is subject to duties specified in the Common External Tariff. Trade in calves and cattle is also subject to an import levy. If the Community market price is below the orientation price, the EC producer is given a price advantage in the domestic market over imported meat. The import price used in calculating the levies is not the actual c.i.f. price but a calculated price based on the weighted average of representative prices in the United Kingdom, Ireland, Denmark, and Austria. The levy is calculated as follows:

The levy shall be equal to the following percentages of the difference between the calculated import price plus duty, and the orientation price:	If the EC representative market price is:
100%	equal to or below the orientation price
75%	higher than the orientation price and less than or equal to 102% of the orientation price
50%	higher than 102% of the orientation price, and less than or equal to 104% of the orientation price
25%	higher than 104% of the orientation price and less than or equal to 106% of the orientation price
0%	higher than 106% of the orientation price

In an effort to encourage more meat production and less milk production, the system for calves and young fattening cattle is somewhat different. If the EC market price for calves exceeds the orientation price, the levy on young fattening cattle and on calves will be suspended. Furthermore, the Common External Tariff for calves will be reduced by 50 percent.

If a levy is imposed on cattle and calves, a levy shall also be imposed on fresh, chilled, and smoked beef and veal. This levy shall be equal to that on cattle and calves but modified by coefficients expressing the value relation between the live animals and the meats. If imports are offered at a price substantially below the calculated

<sup>18</sup> Council Regulation No. 805/68, Journal Officiel, No. L 148, June 28, 1968.



port price, a supplementary levy will be applied to  
se the gap.

Two somewhat different systems apply to imports of  
zen beef and veal for direct human consumption, on  
one hand, and for processing, on the other. The EC  
s recognized that prices on the livestock markets of  
United Kingdom, Ireland, Denmark, and Austria  
e little or no bearing on the prices of frozen meats  
n different, usually more distant, parts of the world.  
port licenses and surety deposits are required on all  
orts of frozen beef and veal. Under the GATT, the  
has agreed to a 22,000 ton levy-free import quota for  
zen beef on which the Common External Tariff rate  
y not exceed 20 percent. However, this amount  
resents a very small portion of total EC beef and veal  
orts, which reached a level of 420,000 tons in  
6/67. The levy on frozen meat for direct human  
sumption is equal to the difference between:

a) A price equal to the orientation price of the  
esponding product multiplied by a factor which  
resses the value relation existing in the EC between  
h meat of competitive quality and the average price  
mature cattle, and

b) A world market price determined by the most  
orable and representative purchase opportunities for  
EC, plus the customs duty and a standard amount  
ch includes the special cost incurred when importing  
zen meat.

-frozen meat destined for use by the processing  
ustry may be allowed to enter in specified quantities  
hout the levy defined above or with a partial levy  
ension if the Council deems it necessary to assure  
quate supplies to the industry. The EC has had to  
uce the levy to attract imports. A 25 percent levy  
uction went into effect on July 29, 1968, and was  
eased to 30 percent beginning October 7, 1968.

The EC duty rates on variety meats and inedible  
ow are bound in the GATT, and therefore the import  
y provisions of the CAP do not apply to these  
ommodities.

Export subsidies may be provided in the amount  
ecessary to bring the Community price down to the  
ld market price. The export subsidy is the same  
hroughout the EC but may be differentiated by  
ination. Also, as in other CAP's, escape clause action  
be taken if the market is disturbed or threatened by  
ter exports or imports.

#### Evolution of the CAP

The beef and veal CAP took effect on November 1,  
64. It provided for orientation and intervention prices  
cattle and calves. To gradually align the pre-existing  
es in the member states, upper and lower limits were

set for these prices annually through the transition  
period.

The system regulating trade with nonmember coun-  
tries was essentially the same as that under the regula-  
tions for the completed common market except that  
there were only three levels of the EC market price  
specified for determination of the import levy. If the  
market price exceeded 105 percent of the orientation  
price, no levy was charged. If it fell below the  
orientation price, 100 percent of the levy was applicable.  
At any level between 100 and 105 percent of the  
orientation price, only half the levy was charged. All  
quantitative restrictions on intra-Community trade were  
abolished, and under normal conditions, only the cus-  
toms duties were applied. The level of the duties was  
reduced gradually during the transition period. However,  
provision was made for the use of a levy on imports  
from member states. The levy could not raise the price  
of the imported goods to more than 96 percent of the  
orientation price in member states intervening in their  
domestic markets, or to more than 90 percent of the  
orientation price in those not intervening. No such levies  
were provided for calf imports.

## **Production and Consumption**

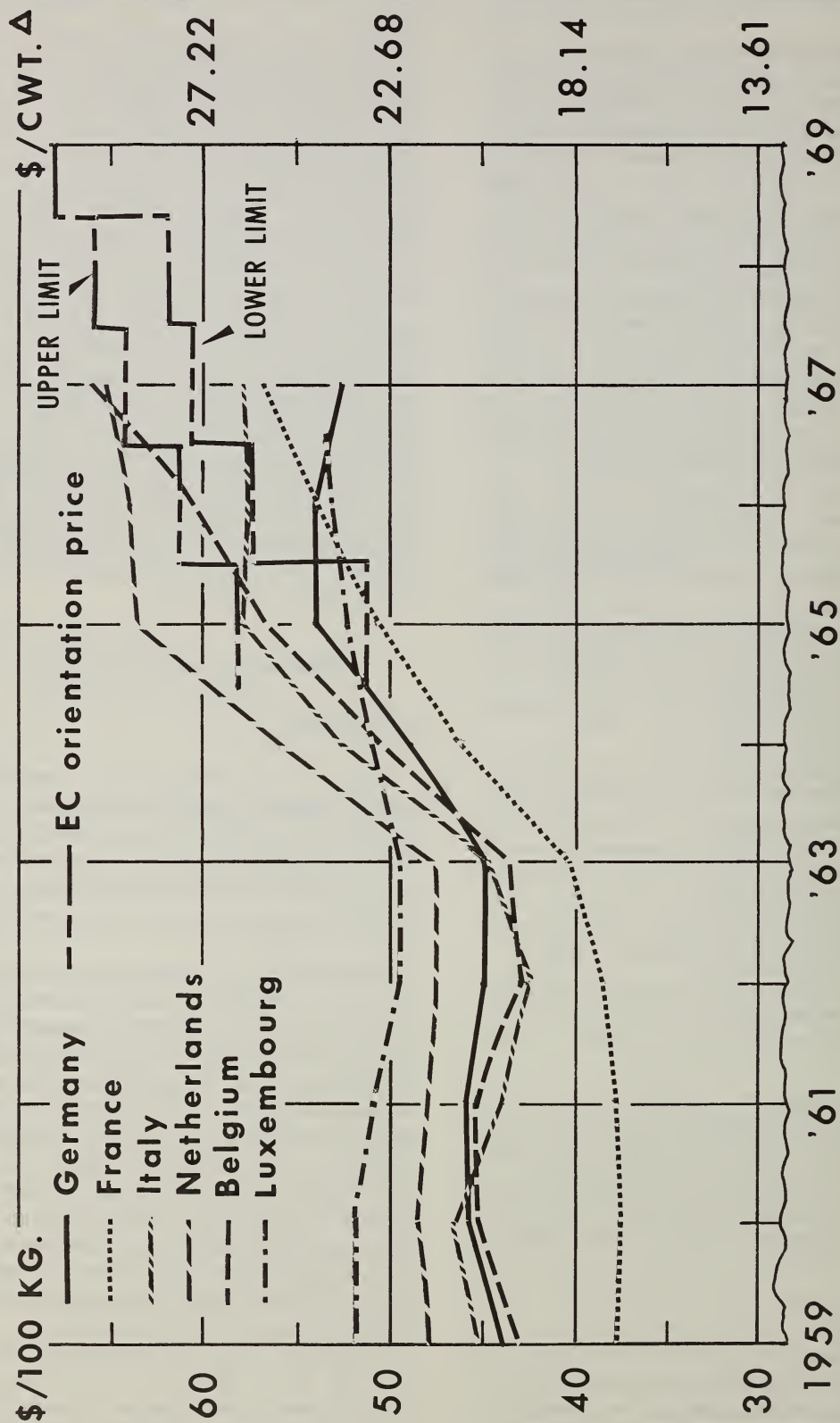
### Producer Prices

Figures 8 and 9 illustrate the average prices for  
slaughter cattle and calves in the EC member states since  
1958/59 and the EC orientation prices in effect since  
1964/65. Quality grades may not be perfectly compara-  
ble among the member states and between their grades  
and the EC standard quality. Nevertheless, the price  
trends are obvious.

Both cattle and calf prices have risen substantially in  
the EC since 1958/59. Since introduction of the CAP's  
for beef and veal, the orientation prices apparently have  
not significantly altered the trend. Perhaps of far greater  
importance has been the influence of the beef produc-  
tion cycle on the price trend. When the cycle once again  
reaches its production peak, the intervention measures  
provided in the CAP should serve to prevent the  
price-depressing effects of the peak. The opposite will  
hold true for the troughs in the production cycle, when  
prices normally rise more rapidly. The market prices will  
likely exceed the orientation price, and the levy on  
imports will begin to fall or disappear, thereby allowing  
imports to play the role of price stabilizers.

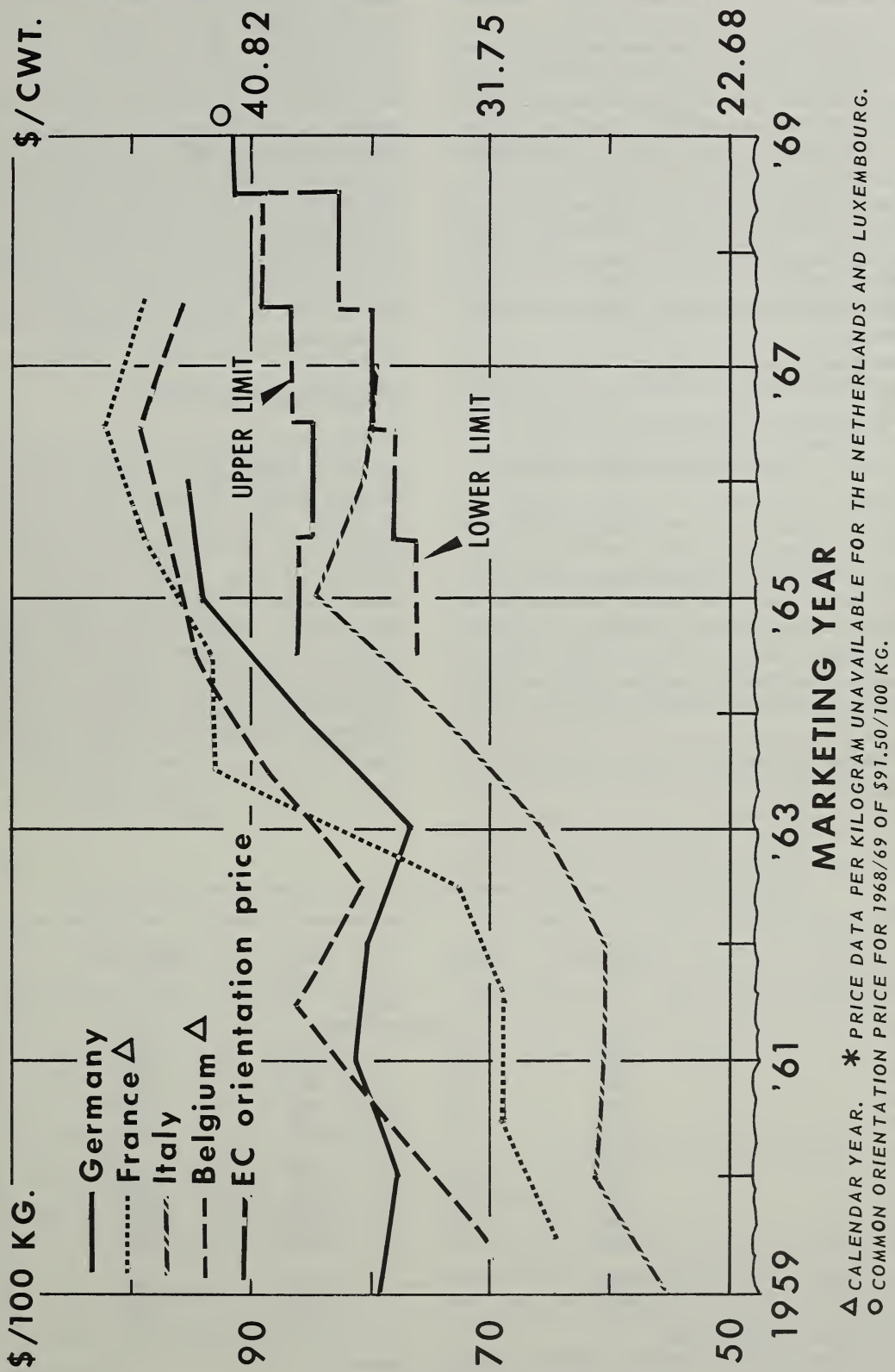
A discussion of the major importance of the milk-  
beef price ratio is necessary in an explanation of the  
EC's beef price policy. Because EC production centers  
around the dual purpose milk-beef animal, any effort to

# EC PRICES FOR SLAUGHTER CATTLE\*



\* PRICES ON LIVELWEIGHT BASIS.  $\Delta$  COMMON ORIENTATION PRICE FOR 1968/69 OF \$68/100 KG.

# EC PRICES FOR CALVES \*



Δ CALENDAR YEAR. \* PRICE DATA PER KILOGRAM UNAVAILABLE FOR THE NETHERLANDS AND LUXEMBOURG.  
○ COMMON ORIENTATION PRICE FOR 1968/69 OF \$91.50/100 KG.

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Figure 9



increase beef production through price incentives will also tend to cause increased milk production.

Through 1964/65, prices for slaughter cattle showed a more favorable trend than milk prices in most member states. The French milk-beef price ratio improved from a level of 1:5 in the early 1950's to 1:6.6 by 1964/65, while the Netherlands' ratio moved in the opposite direction from a high of 1:7.7.<sup>19</sup> The EC Commission, in its price proposals, sought to maintain the ratio at around 1:7.3. However, political pressures from dairy producers forced an increase in the milk price, upsetting the intended ratio. The result has been a tremendous surplus of milk production with inadequate increases in beef production.

In the face of the mounting dairy surplus and the enormous costs involved in financing it, the Commission has sought revision of the milk-beef price ratio. While the beef orientation prices have been raised, the increases have not been sufficient to offset the effects of the increased milk price. The future will most likely see a more sizable adjustment in the price ratio, and it will probably be achieved by further increases in the beef price while holding the milk price constant. Such action will of course be taken at the expense of the consumer and will further increase the gap between EC beef prices and world market prices. One way a higher beef price may serve to increase beef production without increasing milk production is by providing an incentive to feed

calves to heavier weights before slaughter. The more rational solution to the EC's dairy surplus and beef shortage problems would ultimately appear to be movement toward a single purpose beef animal. Competition for land inhibits much more extensive grazing of beef animals. Feedlot operations may be feasible, but would require developing larger supply sources of feeder cattle. This would also require much more production or large imports of feed grains and feedstuffs, some of which the United States would certainly supply. However, such a shift to a single purpose beef animal would require major structural reform of traditional European agriculture and therefore it will not be a rapid shift nor will it be accomplished without large expenditures.

#### Developments and Projections

The EC as a whole has had a sizable deficit in beef and veal in recent years. Total beef and veal production increased steadily from 1956/57 through 1962/63, where it reached a peak of 3.8 million tons (table 44), then dropped off in the 3 following years, but in 1966/67 recovered somewhat. Total consumption followed a similar pattern of development, although it reached a record high in 1966/67. However, per capita consumption had not returned to its 1963/64 peak of 23 kilograms. Beginning in 1963/64, EC self-sufficiency dropped below 90 percent, reaching a low of 84 percent in 1965/66. The major deficit areas have been Italy and Germany. Production in the Netherlands and France has slightly exceeded domestic consumption. The trend

<sup>19</sup> Supplement to Bulletin No. 4-1966 of the EEC, 1966, p. 33.

Table 44.—EC domestic production, trade, and consumption of beef and veal, 1955/56-1966/67

Year	Production	Exports <sup>1</sup>	Imports <sup>1</sup>	Consumption	Per capita consumption
		<i>1,000 metric tons</i>			<i>Kilograms</i>
1955/56 . . . . .	2,836	66	207	2,992	18.2
1956/57 . . . . .	2,786	50	369	3,109	18.7
1957/58 . . . . .	2,904	57	319	3,167	18.9
1958/59 . . . . .	2,959	65	309	3,195	18.9
1959/60 . . . . .	3,136	72	328	3,368	19.7
1960/61 . . . . .	3,362	90	298	3,530	20.5
1961/62 . . . . .	3,560	162	299	3,729	21.4
1962/63 . . . . .	3,777	124	416	4,039	22.9
1963/64 . . . . .	3,587	89	586	4,117	23.1
1964/65 . . . . .	3,357	48	589	3,885	21.5
1965/66 . . . . .	3,294	43	677	3,943	21.6
1966/67 . . . . .	3,576	67	613	4,119	22.4

<sup>1</sup> Excludes intra-Community trade

Source: Statistique Agricole, 1963-No. 1, 1964-No. 5, 1966-No. 7, 1968-No. 7

ward an increasing deficit in beef and veal in the EC appears likely to continue through 1975, as projected in the Michigan State University study.<sup>20</sup> Despite marked increases in production projected for every country for 1975, the deficit was expected to double between 1970 and 1975. The deficits in Italy, Germany, and Belgium were likely to continue to increase. The current surplus production in the Netherlands was projected to turn to a light deficit by 1975. Therefore, France was expected to be the only surplus producer in the EC by 1975. However, even the French surplus was expected to fall increasingly short of consumer demand for beef and veal in the EC. The total beef-veal deficit was expected to grow to about 1 million tons in 1975.

These projections of growing import needs are in sharp contrast to the optimism of some EC officials that the EC may approach self-sufficiency in beef and veal by the mid-1970's. If the price and income assumptions on which the projections were based hold true through this period, imports not only will grow rapidly in absolute terms, but they will also provide an increasing percentage of the EC's total beef and veal consumption. On the production side, unless major changes occur in farm size and structure, enabling the EC to develop a significant specialized beef-cow herd, beef production will remain closely tied to milk production. To the extent that the milk surplus continues to plague the EC, beef production will necessarily be limited unless the tie-in to milk production can be reduced.

## CAP for Pork

### Basic Features

The regulation establishing a uniform EC market for hogs, pork, and pork products, including lard, came into effect on July 1, 1967.<sup>21</sup> Although the main features of this CAP parallel those of the poultry and egg CAP,<sup>22</sup> the pork regulations provide for mandatory internal market intervention. This intervention may take the form of either purchases by intervention agencies or subsidies for private storage of pork. A base price is set annually by the Council. This is not a guaranteed price, but serves rather as a trigger point for the consideration of intervention measures in the pork market. The base price is set at a level which takes into account the level of the sluice-gate price and import levy

and the need to assure stable market prices without entailing a surplus buildup in the Community. Intervention must take place if market prices fall below the base price, and if it appears likely that they will remain below it. The prices offered by the intervention agencies must not be greater than 92 percent or less than 85 percent of the base price.

Trade within the EC is free of levies or duties. Trade with third countries is regulated by sluice-gate prices, import levies, supplementary levies, and export subsidies. As with poultry and eggs, the import levy consists of a feed grain differential and 7 percent of the previous year's sluice-gate price. Supplementary levies are charged if the c.i.f. offer price is below the sluice-gate price. Some products, such as pork offals and lard, have duty rates bound in the GATT, which limits the total levies the EC may apply.

Imports of live hogs and pork require import certificates and surety deposits.

### Evolution of the CAP

The first pork regulations came into effect along with those for grains, poultry, and eggs on July 30, 1962. Regulations for pork cuts and preserved meats first came into effect on September 2, 1963. These regulations established the sluice-gate price and provided for import levies and export subsidies. Trade with third countries was subject to the levy system based on the sluice-gate price. Trade within the Community was also subject to a levy calculated on the basis of a feed grain differential as well as customs duties in existence when the CAP came into effect. The system was devised to provide a gradually increasing preference for EC pork within the Community during the transition period.

The transitional regulations also provided for special authorization for internal market intervention measures. Germany and France, in the face of temporarily depressed markets for pork, availed themselves of this opportunity and made intervention purchases at various times during the transition period.

## Production and Consumption

### Producer Prices

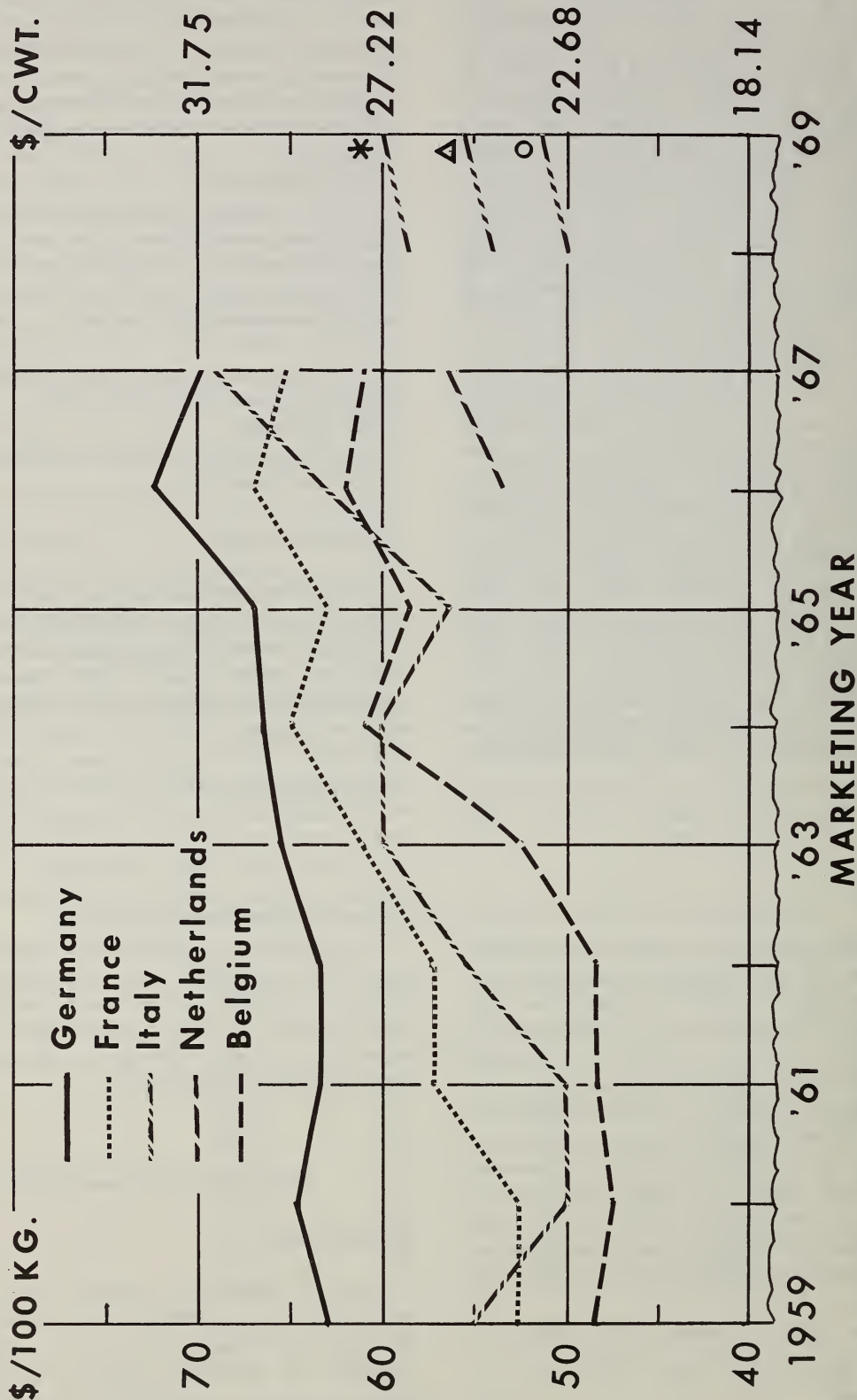
Figure 10 illustrates the average prices for slaughter hogs in the EC from 1958/59 through 1966/67 and the EC base and intervention prices for 1967/68 and 1968/69. The relationship between the member state prices, as a group, and the EC base and intervention prices may not be exactly as it appears in the chart due

<sup>20</sup> See pages 101-103 of publication cited in footnote 6 (page 17).

<sup>21</sup> Council Regulation No. 121/67, Journal Officiel, No. 1, June 19, 1967.

<sup>22</sup> See pages 56 and 57.

# EC PRICES FOR SLAUGHTER HOGS



\* EC ADJUSTED BASE PRICE. SINCE THE BASE PRICE IS FOR SLAUGHTERED HOGS, IT HAS BEEN ADJUSTED DOWNWARD BY AN 80% SLAUGHTER YIELD.  $\Delta$  MAXIMUM INTERVENTION PRICE.  $\circ$  MINIMUM INTERVENTION PRICE.  
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differences in quality grades and weight classes, but it could be approximately correct.

Average prices for slaughter hogs rose throughout the EC over this 9-year period. While some market intervention measures were necessary in Germany and France in the most recent years to maintain the price at an acceptable level, this practice was not widespread. However, under the rules of the unified market which came into effect in mid-1967, intervention measures are specifically called for when the market price drops below the base price and it appears likely to remain there. Figure 10 masks the substantial seasonal variation in hog prices which will tend to bring the market price below the base price during periods of heavy marketings. This is primarily for such instances that the intervention measures are intended.

The increased base price from 1967/68 to 1968/69 is due mainly to the increased feed grains prices which came into effect on August 1, 1968. Because of the extensive use of feed grains in hog production, the EC Council felt it was necessary to increase the base price to keep the producer price in line with the increased production costs.

#### Developments and Projections

Pork production has increased steadily in the EC since 1955/56, with the exception of slight declines in 1963/64, 1965/66, and 1966/67 (table 45). Per capita consumption increased 27 percent over the 12-year period. The Community's self-sufficiency never dropped

below 98 percent in this period, and for 9 out of the 12 years the rate ranged from 100 to 104 percent. Therefore, in most years the EC was a net exporter of pork. Germany continues to have a pork deficit, while the Netherlands is a major producer for export and has been a major supplier to the German market.

This situation is expected to change by 1970.<sup>23</sup> Germany is expected to become nearly self-sufficient, Italy may shift to a slight deficit position, and the exportable surplus production in France and the Netherlands is expected to remain or increase. The surplus in Belgium-Luxembourg may increase slightly. Therefore, by 1970, the import requirements of Germany should be markedly lower, and in the face of increased total EC production, there will be a sizable surplus available for export, especially from the Netherlands.

The intervention measures which came into effect for pork in mid-1967 may significantly alter the magnitude, but not the direction, of the above projections, which are based on the assumption that pork prices would decline in the years ahead to a point that only efficient producers would remain in business. A floor has now been placed under pork prices by the intervention prices. This is likely to encourage even greater output while it dampens increases in consumption. The result will be an even larger exportable surplus, and third countries are likely to face increased competition from EC pork in both their domestic and traditional export markets.

<sup>23</sup> See page 106 of publication cited in footnote 6 (page 17).

TABLE 45.--EC domestic production, trade, and consumption of pork, 1955/56 - 1966/67

Year	Production	Exports <sup>1</sup>	Imports <sup>1</sup>	Consumption	Per capita consumption
		<i>1,000 metric tons</i>			<i>Kilograms</i>
55/56.....	2,951	121	43	2,842	17.3
56/57.....	3,025	115	74	2,987	18.0
57/58.....	3,129	111	101	3,125	18.7
58/59.....	3,159	94	112	3,160	18.7
59/60.....	3,288	117	113	3,285	19.3
60/61.....	3,402	129	102	3,394	19.7
61/62.....	3,560	130	99	3,525	20.3
62/63.....	3,675	120	90	3,651	20.7
63/64.....	3,618	91	179	3,703	20.7
64/65.....	4,028	120	101	4,005	22.2
65/66.....	3,910	124	224	4,002	21.9
66/67.....	3,960	132	214	4,053	22.0

<sup>1</sup> Excludes intra-Community trade  
Source: Same as table 44

## Foreign Trade

### Import Barriers for Beef and Veal

All imports of live animals for slaughter, and imports of beef and veal meat and related products are subject to duties as set down in the Common External Tariff. The rate on live animals for slaughter is 16 percent. The rate for fresh, frozen, and chilled beef and veal is 20 percent. Rates on edible offals of bovine animals and on inedible tallow are bound in the GATT at 20 percent and 2 percent, respectively.

Under the CAP, the import levy may be applied on all the above products except edible offals, inedible tallow, and the 22,000 ton frozen beef import quota under the GATT. The amount of the import levy and its protective effect vary with changes in the relationships between the EC orientation price and the calculated import price and between the EC market and orientation prices. If the calculated import price drops and the EC orientation price remains constant, the size and protective effect of the maximum chargeable levy increases. As EC market prices drop between levels equal to 106 to 100 percent of the orientation price, the import levy also increases in size and protective effect.

A calculation of the ad valorem equivalent of the total charges placed on imports illustrates their protective effect. In December 1968, the EC market price for mature cattle was \$63.756 per 100 kilograms. The orientation price was \$68.00. Since the market price was below the orientation price, this meant that 100 percent of the import levy was being charged. The following situation resulted:

Calculated import price . . . . .	\$39.962/100kg.
Import duty (16 percent) . . . . .	6.394
Import levy . . . . .	21.644
Total import charges . . . . .	28.038
Ad valorem equiv. . . . .	70 percent

If the EC market price had been \$72.50 per 100 kilograms (i.e. more than 106 percent of the orientation price) the following situation would have resulted:

Calculated import price . . . . .	\$39.962/100kg.
Import duty (16 percent) . . . . .	6.394
Import levy . . . . .	---
Total import charges . . . . .	6.394
Ad valorem equiv. . . . .	16 percent

Therefore, with the calculated import price and the EC orientation price at the levels illustrated above, the ad valorem equivalent of the total import charges may

vary from 16 to 70 percent depending upon developments in the EC market price.

Since November 1, 1964, when the beef and veal CAP came into effect, price developments and relationships have required almost continuous application of the full or partial levy on beef and veal imports. It is unlikely that the EC market price will exceed 106 percent of the orientation price; therefore, full or partial application of the levy may be expected to continue.

### Import Barriers for Pork

The main barrier faced by EC imports of live swine, pork, and pork products is the sluice-gate price and levy system. This system for pork is an exact parallel of the system used for poultry and egg imports.<sup>24</sup> The only pork products not completely subject to the levy system are fresh, frozen and chilled pork offals, and lard intended for industrial use. Levies on these commodities are limited by GATT bindings to effective duty rates of 20 percent for offals and 3 percent for industrial lard.

Since the CAP came into effect in mid-1962, a supplementary levy has been applied frequently to pork imports, although not as frequently as on poultry imports.

A calculation of the ad valorem equivalent of the combined basic and supplementary levies illustrates the protective effect of the levies. On November 1, 1968, fresh, chilled, or frozen pork carcasses or half carcasses from all third countries were subject to the following:

Sluice-gate and offer price . . . . .	\$53.50/100kg.
Basic levy . . . . .	20.73
Supplementary levy . . . . .	---
Total levies . . . . .	20.73
Ad valorem equiv. . . . .	39 percent

In this case, because of the absence of a supplementary levy, it may be assumed that the offer price is equal to the sluice-gate price. However, on the same date, hams which were fresh, chilled, frozen, salted, or brined from Sweden, Bulgaria, and Romania were subject to the following:

Sluice-gate price . . . . .	\$82.93/100kg.
Offer price . . . . .	70.43
Basic levy . . . . .	32.13
Supplementary levy . . . . .	12.50
Total levies . . . . .	44.63
Ad valorem equiv. . . . .	63 percent

<sup>24</sup> See pages 56 and 57.



## Commodity Focus of Trade Analysis

Over 90 percent of U.S. meat exports to the Community consist of edible offals (poultry by definition is excluded here from meat). Data used for this report do not separate beef and veal offals from pork offals, and it is therefore impossible to analyze U.S. beef and veal offal exports separate from pork offal exports. Lard, a pork byproduct, is included under the CAP for pork. Since it is an important U.S. export to the United Kingdom and is affected by the CAP, an analysis of lard accompanies that for edible offals. Small exports of other livestock and meat products were not analyzed.

## Edible Offals

**U.S. STAKE IN THE COMMON MARKET:** In 1965-67 exports of these commodities to the Community totaled \$35 million, up 93 percent from 1961-63. Although a small proportion of U.S. agricultural exports to the Community, these exports are growing rapidly. Over 60 percent of U.S. exports of these commodities are destined for the Community.

**SOURCE OF COMMUNITY IMPORTS:** The United States is the major supplier to the Community, followed by Denmark, the Netherlands, and Argentina (table 46). The Community is a rapidly growing market for these commodities. Total imports nearly doubled between

1961-63 and 1965-67. The value of imports from each source increased. Those from the United States and Argentina increased faster than the total, while imports from Denmark and intra-Community trade, mainly imports from the Netherlands, increased at a slower rate. Since the duty rates on edible offal imports into the EC are bound in the GATT, the CAP has had no direct effect on import volume.

The Community may continue to be an expanding market for edible offals because of the duty rates bound in the GATT and because of the increasing deficit in beef and veal in the EC projected through 1975.

**DESTINATION OF COMMUNITY EXPORTS:** Except in intra-Community trade, the EC is not a significant exporter of these commodities. Intra-Community trade expansion between 1961-63 and 1965-67 was not as rapid as total imports.

**INDIRECT EFFECTS OF THE CAP ON U.S. EXPORTS:** The only significant U.S. market for edible offals outside the Community is the United Kingdom. While Denmark has increased the proportion of its exports destined for this market, there is no indication that U.S. exports have suffered from this. The value of United Kingdom imports from the United States increased from \$10 million in 1961-63 to \$15 million in 1965-67. The U.S. market share increased modestly. As long as the EC is an expanding market, pressure will not be too great on U.S. competitors to increase their market share in traditional U.S. markets.

TABLE 46.-Value of EC edible offal imports, by source of imports, and market share for each source

Country	Average value		Change	7-year low		7-year high	
	1961-63	1965-67					
Value imported from:	<i>Mil. dol.</i>	<i>Mil. dol.</i>	<i>Pct.</i>	<i>Mil. dol.</i>	<i>Year</i>	<i>Mil. dol.</i>	<i>Year</i>
U.S. ....	37.8	74.5	96.8	32.1	1961	77.1	1966
United States ....	17.9	37.4	108.8	16.4	1962	39.8	1966
Canada ....	6.0	10.2	70.7	4.9	1961	11.2	1967
Netherlands ....	4.9	7.6	56.3	3.9	1961	9.0	1965
EEC ....	8.7	10.7	22.3	7.0	1961	11.9	1966
Denmark ....	8.3	9.8	18.3	6.7	1961	11.0	1966
Western Europe ....	1.1	2.7	148.7	.8	1961	3.0	1966
Argentina ....	2.9	7.1	148.4	1.7	1961	9.2	1967
All Others ....	1.3	6.3	405.2	.8	1961	6.7	1965
Market share imported from:		<i>Percent</i>			<i>Year</i>	<i>Percent</i>	<i>Year</i>
U.S. ....	100.0	100.0	---	---	---	---	---
United States ....	47.3	50.2	6.1	44.7	1962	52.6	1965
Canada ....	15.8	13.7	-13.2	11.2	1966	16.6	1963
Netherlands ....	12.8	10.2	-20.6	8.0	1966	13.4	1963
EEC ....	23.1	14.3	-37.9	13.1	1965	25.2	1962
Denmark ....	21.9	13.2	-39.9	12.2	1965	23.7	1962
Western Europe ....	2.9	3.7	26.4	2.4	1961	3.9	1964
Argentina ....	7.5	9.5	26.2	5.4	1961	12.4	1967
All Others ....	3.3	8.5	156.7	2.5	1961	9.3	1965



**DESTINATION OF COMMUNITY EXPORTS (LARD):** The United States has a small stake in the Common Market for this commodity, and the Common Market is not a significant importer from any source. Also, few nonmember nations are exporters of lard, and therefore competitors with the United States. The most damaging effect the CAP could have on U.S. exports would be through increased Community exports to the United States' largest market, the United Kingdom.

After 1964, lard surpluses developed in the Common Market and Community exports to the United Kingdom increased rapidly as a consequence. The average size of this trade in 1961-63 was \$5 million; in 1965-67 it was \$15 million. At the same time, U.S. exports to the United Kingdom dropped from \$33 million to \$16 million and the trend seems to be downward. Obviously, subsidized lard exports under the pork CAP have reduced U.S. exports to the United Kingdom and may do so in the future in other markets.

## FEOGA Expenditures

### Beef and Veal

The first expenditures on beef and veal which were eligible for FEOGA reimbursement were made in 1967/68 and consisted of \$2 million for export subsidies. Official EC estimates place 1968/69 expenditures at \$9 million for export subsidies and \$13 million for internal market intervention, for a total of \$22 million.

### Pork

Although export subsidies for pork were reimbursable from FEOGA since mid-1962, expenditures on internal market support became eligible only upon the establishment of the unified market in mid-1967. FEOGA expenditures on internal market intervention for pork were estimated to begin in 1968/69 in the small amount of \$200,000.

Since 1962/63, export subsidy expenditures by FEOGA on pork have been as follows, including the official estimates for 1967/68 and 1968/69:

1962/63	\$ 0.05 million
1963/64	---
1964/65	7.67 million
1965/66	14.43 million
1966/67	15.29 million
1967/68	40.00 million
1968/69	42.00 million

## Implications for U.S. Trade

### Protective Effects of the Levy System

Since the EC has not traditionally been a major beef or pork market, present direct interests of United States have not been adversely affected by CAP. The only commodities of any significance to United States have been edible offals or variety meats which are subject only to an import duty as specified in the Common External Tariff.

The EC market for top-quality U.S. beef is small at present, and purchases are made primarily by restaurants. It is widely felt, however, that the European consumers' tastes could be educated to accept tenderer, fatter grainfed beef. If this were possible, the gross beef deficit in the EC could provide a lucrative market.

However, present trade policies and sanitary regulations in the EC are a major impediment to development of this market. U.S. beef cannot compete on the basis of price with EC-produced beef or with imports from the EC's traditional suppliers. The United States promotes its beef rather on the basis of quality competition. The high levies and duties under the CAP only add to the price disadvantage and make quality competition more difficult. Furthermore, Germany and Italy have sanitary regulations which are impediments to imports of U.S. beef. Germany requires beef imports to be in the form of the whole carcass and thus prohibits imports of the best cuts of beef. Italy forbids importation of beef in which hormones have been used during the growth process. Since U.S. exporters cannot guarantee that hormones have not been used, this serves to prohibit all imports. Only when the total import charges are reduced and the sanitary regulations are eased can the United States hope to develop a significant export market of any size in the EC.

### EC Subsidized Lard Exports

Subsidized lard exports from the EC into traditional U.S. export markets are a problem of growing concern. As lard surpluses built up in the EC from 1964 to 1967, the individual member states stepped up their export subsidy rates from 1.20 cents to as high as 2.78 cents per pound. The common subsidy rate under the pork CAP came into effect on July 1, 1967, at a level of 2.72 cents per pound and was increased to 3.35 cents by May 27, 1967. Accordingly, the EC's share of world lard trade declined from 28 to 37 percent from 1961-63 to 1965-67, and the U.S. share declined from 55 to 29 percent.

Although the export subsidies were primarily responsible for this shift in market shares, a short supply

ation in the United States in 1964/65-1966/67 also an important influence. Especially in the important . market, the EC was able to establish a market thold during this short supply situation. When U.S. plies recovered and the United States sought to in its traditional share of the U.K. market, the EC ntered with increased export subsidies. As a result, the s share of the U.K. market grew from 15 percent in 0/61-1962/63 to 42 percent in 1965/66-1966/67. e U.S. share dropped from 78 percent in 0/61-1962/63 to 30 percent in 1966/67. On January 1969, the United States introduced an export idy on lard exports to the United Kingdom, and this ould serve to increase U.S. exports in 1969.

#### Version of Third Country Exports to the United States

another threat to U.S. interests which arises from the and pork CAP's is the possibility of diversion of d country exports from the EC market to the U.S. ket. As traditional exporters to the EC find that the y has blocked or diminished their market access, they urn to other third country markets as outlets for r exportable supplies. This may already have oc ed for meat exporters such as Denmark, Argentina, ralia, and New Zealand. They then seek access to rich U.S. market, thereby arousing the fears of U.S. lucers and raising calls for protective measures. If ers to imports were to be erected as a result, third ntry exporters would be forced to resume their ch for markets and to probably subsidize their rts, thereby adding to the troubled conditions dy existing in world agricultural trade.

## **DAIRY PRODUCTS**

### **CAP for Dairy Products**

#### Features

he EC dairy market was unified on July 1, 1968.<sup>25</sup> practice, however, the new regulations did not go into operation until July 29, 1968. While the EC dairy ket is termed "unified," it is in fact less unified than single markets for other commodity groups subject AP's. So-called common EC target and intervention s do exist, but explicit provision is made for tion from these among the member states. There are et no common regulations for fresh milk and cream. umer and producer subsidies in Germany and embourg, respectively, are provided for in the new

regulations. Furthermore, a limit has been placed on the commonly shared burden of financing FEOGA expenditures in the dairy sector. All these factors preclude the existence of a truly unified dairy market.

The market for dairy products is governed by three different prices: a target price for milk; intervention prices for butter, skim milk powder, and certain cheeses; and, threshold prices for the pilot products of each of the twelve dairy product groups.<sup>26</sup> The target price for milk is fixed annually prior to August 1 of the year preceding the marketing year in which it is to be effective. The marketing year for dairy products runs from April 1 - March 31. The target price for milk is defined as the milk price which it is desired to achieve for all milk sold by producers in the marketing year in accordance with demand prospects on the market of the EC and in third country markets. It is not a guaranteed price. The price is fixed for milk with a fat content of 3.7 percent delivered to a dairy plant.

Intervention prices for butter, skim milk powder, and the cheese varieties Grana Padano and Parmigiano-Reggiano, which are also established annually, define the price at which intervention agencies must purchase these commodities when and if they are offered for sale to the agencies. The reason for the cheese intervention prices is to give the same price assurances to milk producers in the regions where these cheeses are produced as those given to producers in regions where butter and skim milk are the most significant milk products.

Threshold prices for the pilot products are fixed annually at a level which ensures that the prices of imported dairy products will reach a level corresponding to the target price for milk, taking into account also the protection deemed necessary for the Community's processing industry. The regulations define twelve dairy product groups and a pilot product which is most representative of each group.

The EC's intervention system for dairy products is rather clearcut on the surplus acquisition side, but complex on the surplus disposal or consumption subsidy side. Intervention may take the form of purchases by official intervention agencies or grants of aid for private storage, and it is limited to butter, skim milk powder, and the Italian cheeses named above. In exceptional circumstances, authorization may also be granted for intervention in other types of cheese. The intervention agencies and private traders who are storing surplus

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<sup>26</sup> The pilot products are the most representative products within each group of dairy products. It was originally intended that the levy on the pilot product would apply equally to all other products in the group. However, special levy calculation rules apply to many products, especially those containing other than milk ingredients.

<sup>25</sup> Council Regulation No. 804/68, Journal Officiel, No. L June 28, 1968.



commodities are obliged to attempt to sell these commodities in the course of the marketing year without disturbing the market equilibrium.

To facilitate disposal of surplus supplies if normal marketing proves impossible, several different measures are provided for. Export subsidies may be paid on all dairy products and processed products which incorporate dairy products. The export subsidy rate is uniform for the entire Community, but it may be differentiated by destination. Subsidies are also provided for the use of skim milk and skim milk powder in calf feeding at the rates of \$1.50 and \$8.25 per 100 kilograms, respectively. A subsidy may also be granted for the use of skim milk in the production of casein.

Several possible measures for the disposal of surplus butter have been proposed in the Community.<sup>27</sup> One measure, which has already been used by some member states, is the sale of butter from cold stores at a price below fresh butter during certain specified times of the year. The drawback to this measure is that sales of fresh butter are hurt by sales of cold store butter. Another measure is the subsidized sale of butterfat for cooking purposes. The butterfat would be sold at a price to compete with other edible fats and oils, and its consistency and packaging would be such as to make it obviously distinguishable from butter. The subsidized substitution of butterfat for other edible fats and oils by food processing industries is another measure under consideration. Subsidized sale of butter to institutions, such as schools, hospitals, and the military, is another possibility. Finally, the Community is considering the subsidized use of butterfat in milk powder in the manufacture of compound animal feedstuffs. Compound feedstuffs are enjoying increasing demand in the EC, and if butterfat could be substituted for other energy sources in these feedstuffs, it could become a significant outlet for butterfat. It is suggested that 6 percent fat be included in the powdered milk, in which case the \$8.25 per 100 kilograms subsidy for the feeding of skim milk powder would be increased to take into account the additional cost of the butterfat.

Trade with third countries in all dairy products except fresh milk and cream is governed by the threshold price system, export subsidies, and import and export certificates with a deposit of surety. Trade in fresh milk and cream is to be regulated by individual member state rules until, at the latest, January 1, 1970. The variable levy applied to dairy products is equal to the difference between the threshold price and the entry price, which is based on the lowest quotation in the

world market. The levy may be adjusted daily. D rates for Emmenthal, Gruyere, Sbrinz, Schabzieger, Cheddar cheeses are bound in the GATT. Therefore, levy rate on these cheeses may not exceed the level of this binding. Export subsidies are granted in a uniform amount for the entire EC at a level equal to the difference between the EC market price and the world market price, and may be differentiated by destination. Escape clause action is also provided for in case the Community market is disrupted or threatened by a disruption.

Intra-EC trade in dairy products, again excluding fresh milk and cream, is free, with one major exception. Because of the different prices for butter and skim milk powder in the member states, trade is subject to export or import levies, or export or import subsidies. Previously existing regulations of the member states apply to fresh milk and cream trade until the common market is established for these commodities.

Three further exceptions essentially complete the picture of the dairy products CAP. First, until the end of 1969, Germany and Italy are allowed to retain their national controls over the collection and marketing of milk by zones. Second, Germany is allowed to retain until the end of 1969, on a declining scale, its consumption subsidies on butter and on Gouda, Edam, and Tilsit cheeses. Finally, Luxembourg is allowed to retain its system of milk producer subsidies until the 1970 marketing year on a declining scale.

### Evolution of the CAP

The first common rules for dairy products came into effect on November 1, 1964, along with those for beef and veal. It covered all dairy products except fresh milk and cream and consisted of three main elements--import levies, target prices for milk, and market intervention primarily for butter. As with beef and veal, the Council fixed annually the upper and lower limits of national target prices, and these were gradually aligned during the course of the transition period. Also, import or producer subsidies which, in effect, allowed dairy products to be sold below the equivalent limit of the milk price were gradually eliminated during the transition period. Intra-EC trade and trade with third countries were regulated by a national threshold price system and import levies, with a standard deduction from the levy to provide a preference for intra-EC trade. The threshold prices were also aligned toward common prices fixed by the Council. Export subsidies to third countries were provided for. Specific regulations were set up for intervention on the butter market and other interventions by member states were authorized provided the Commission was given notice of them.

<sup>27</sup> Newsletter on the Common Agricultural Policy, No. 7, May 1968, pp. 12-13.



## Production and Consumption

### Producer Prices

Figure 11 illustrates developments in the member state target prices for milk during 1963-1968/69. The common target price established for 1968/69 is \$10.30 per 100 kilograms (\$4.67 per 100 pounds) ex-dairy. Because of varied collection costs among the member states, the actual returns to farmers differ under this common target price. Producers in member states with the most efficient collection systems, such as the Netherlands, Germany, and Belgium, will enjoy the highest producer prices under this scheme.

It is obvious from the graph that all producers except those in Italy have received higher prices through the years since the introduction of the dairy CAP. Increases have been greatest in the Netherlands, France, and Belgium. Such large price increases have certainly provided an incentive for producers to utilize inputs in ever greater quantities to increase milk production and also to market a greater share of their production rather than consume it on the farm as food or feed.

Intervention prices for butter and skim milk powder have been set at levels which guarantee to the producer a price for milk as close as possible to the target price. The common intervention price for butter for 1968/69 is \$73.50 per 100 kilograms (79 cents per pound). However, this price applies only in the Netherlands and Italy. In France, Belgium, and Luxembourg, the price is \$76.25, and in Germany it is \$167.50. A similar situation exists in the intervention price for skim milk powder. The common intervention price of \$41.25 per 100 kilograms (19 cents per pound) applies only in Germany, the Netherlands, and Italy. The price for France, Belgium, and Luxembourg is \$44.00.

Depending upon the season of the year in which they are marketed and the amount of aging, the intervention prices for Grana Padano and Parmigiano-Reggiano cheeses are \$124.50 to \$148.00 per 100 kilograms (56 cents to 67 cents per pound) for the former and \$163.20 per 100 kilograms (74 cents per pound) for the latter. These intervention prices are at a level expected to yield a milk producer price of \$11.25 per 100 kilograms ex-farm (\$5.10 per hundredweight), considerably above the weighted average ex-farm target price of \$9.75 (\$4.42 per hundredweight). There is a concern that this very attractive price will lead to even larger dairy surpluses and possibly to the manufacture of these cheeses by plants other than those located in Italy.

Willingness of the EC to so rapidly increase milk prices and maintain them at such a high level relative to world prices can only be understood by realizing the

importance of income from milk production to Common Market agriculture. Each year the proceeds from milk production account for between one-fourth and one-third of total EC farm income. More significant, over 45 percent of EC farms rely upon dairy production for at least part of their income, and 25 percent or over 600,000 of these dairy operations involve 5 cows or less.<sup>28</sup> Therefore, milk production is widespread, and many producers rely heavily upon the regular income provided by milk checks. Their numbers are significant enough that their political loyalties are of great concern, and hence the willingness to assure them adequate incomes through higher milk prices.

### Developments and Projections

The increase in milk production in the EC is accounted for almost entirely by increased yields per cow in 1960-67. The dairy cow population only increased from 21.4 million in 1960 to 22.0 million in 1967 (table 47). However, during the same period, milk production rose from 63.1 million to 72.5 million tons. Even more remarkable was the increase in deliveries to dairies, from 41.2 million to 53.5 million tons. Thus, while the number of milk cows increased 3 percent, milk production increased 15 percent, and deliveries to dairies increased 30 percent. Due to progress in herd improvement and the growing use of feed concentrates, the average yield per cow per year grew from 2,951 to 3,289 kilograms. The increased deliveries to dairies were accounted for by the reduction in human consumption on the farm, by the decline in milk being processed on the farm, and by the considerable decrease in whole milk being fed to calves.<sup>29</sup>

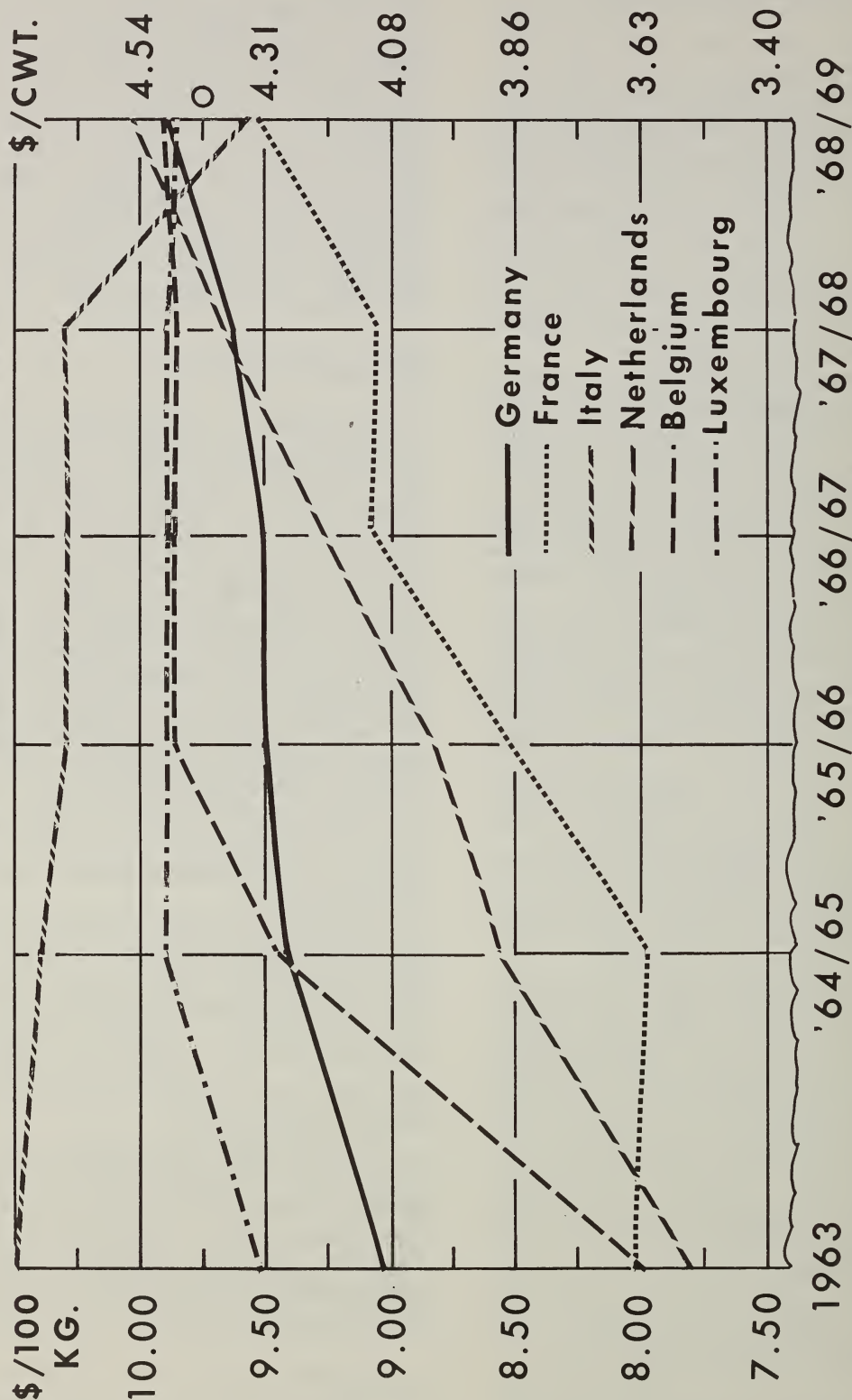
In the face of the rapidly increasing production and deliveries to dairies, per capita consumption in the EC has remained relatively stable in recent years (table 48). Any increase in overall consumption has been due largely to population growth. The EC was virtually self-sufficient in milk products by the end of 1964. Since 1965, the EC has been a net exporter of both fat and nonfat milk products.

The EC's growing dairy surplus has been most in evidence in the butter market. Butter is a rather easily stored commodity and has therefore been the primary dairy product subject to internal market intervention. The butter intervention measures have encouraged increased manufacture of butter, and it is in the form of a *Butterberg* (butter mountain), as the Germans term it,

<sup>28</sup> Newsletter on the Common Agricultural Policy, No. 10, July 1968, p. 17.

<sup>29</sup> Newsletter on the Common Agricultural Policy, No. 7, May 1968, p. 4.

# EC TARGET PRICES FOR MILK \*



O EC TARGET PRICE, EX-FARM, WEIGHTED AVERAGE. SINCE THE EC TARGET PRICE IS STATED EX-DAIRY AND THE COLLECTION COSTS VARY AMONG THE MEMBER STATES, THE PRICES EX-FARM VARY AS SHOWN.

\* 3.7% FAT, EX-FARM. 1963 PRICES ARE PRE-CAP NATIONAL TARGET PRICES.

TABLE 47.--EC milk cows and milk production<sup>1</sup>, by country, 1950-67

Year	European Community			Germany	France <sup>2</sup>	Italy	Netherlands	Bel-Lux
	Milk cows	Production per cow	Total output					
	<i>1,000 head</i>	<i>Kilograms</i>			<i>1,000 metric tons</i>			
1950.....	18,846	2,406	45,358	13,927	15,450	6,864	5,765	3,342
1954.....	20,697	2,569	53,176	17,160	18,540	7,771	5,882	3,823
1958.....	21,098	2,774	58,525	17,977	21,115	9,282	6,240	3,911
1959.....	21,343	2,760	58,916	18,497	20,300	9,782	6,411	3,926
1960.....	21,367	2,951	63,053	19,250	22,972	9,906	6,838	4,087
1961.....	22,006	2,942	64,745	19,872	23,793	10,029	6,953	4,098
1962.....	22,257	2,948	65,607	20,295	24,308	9,591	7,269	4,144
1963.....	21,809	3,010	65,640	20,703	25,338	8,578	7,011	4,010
1964.....	21,488	3,064	65,848	20,830	25,235	8,963	6,956	3,864
1965.....	21,691	3,160	68,641	21,183	26,780	9,586	7,143	3,949
1966.....	21,720	3,256	70,720	21,357	28,016	10,159	7,236	3,952
1967.....	22,036	3,289	72,476	21,717	29,355	<sup>2</sup> 9,800	7,535	4,069

<sup>1</sup> Cow's milk only<sup>2</sup> Estimated

Source: Statistique Agricole, 1967-No. 11, 1968-No. 10

TABLE 48.--EC per capita consumption of dairy products, by type of product, 1955/56 - 1966/67

Year	Whole milk	Skim milk <sup>1</sup>	Condensed & evaporated milk	Cheese	Butter <sup>2</sup>
		<i>Kilograms</i>			
55/56	85.7	12.2	2.3	6.5	4.5
56/57	84.5	12.4	2.5	6.7	4.6
57/58	84.6	12.3	2.8	7.2	4.6
58/59	84.9	12.0	2.9	7.4	4.8
59/60	86.4	12.9	3.4	7.6	4.6
60/61	86.7	11.3	3.3	7.9	5.1
61/62	86.6	11.3	3.7	8.2	5.1
62/63	85.2	11.5	3.9	8.1	5.3
63/64	83.9	11.5	4.0	8.4	5.4
64/65	82.3	11.2	4.1	9.0	5.3
65/66	81.2	11.8	4.0	9.3	5.4
66/67	81.6	11.4	4.0	9.9	5.4

<sup>1</sup> Italian consumption not included in calculation<sup>2</sup> Weight on pure butterfat basis

Source: Statistique Agricole, 1962-No. 1, 1964-No. 5, 1967-No. 2, 1968-No. 10

at the EC's butterfat surplus has been removed from the market and stored.

As with the overall dairy product situation, butter supply and demand were substantially in balance through 1964. Stocks at the end of each marketing year were between 50,000 and 60,000 tons and did not present any great disposal problem. However, from 1965, the stocks carried forward at the end of each year grew steadily. This was due to stationary per capita consumption and to production increases totaling 10,000 tons between 1964 and 1967. Production grew

from 1.075 million tons in 1960 to 1.315 million tons by 1967 (table 49). The total accumulation of butter stocks increased to 150,000 tons by April 1, 1968, of which 70,000 tons represented surplus production for 1967/68.

Production of skim milk powder also increased sharply in the EC in the 1960-67 period from 365,000 to 1,268,000 tons. EC production capacity grew during this period as new plants came into production, and demand for skim milk powder as a feed ingredient increased (table 50). Export markets were also developed by the EC. Therefore, skim milk powder was not a problem commodity for the EC in the past. However, stocks have recently begun to accumulate in large

TABLE 49.--EC production of dairy products, by type of product, 1950-67

Year	Milk <sup>1</sup>	Butter	Cheese	Con-densed milk	Powdered milk
		<i>1,000 metric tons</i>			
1950....	14,414	728	888	314	78
1954....	15,945	884	1,038	466	135
1958....	15,713	979	1,187	704	234
1959....	15,779	976	1,250	802	256
1960....	16,126	1,075	1,349	896	365
1961....	15,986	1,123	1,457	937	402
1962....	15,976	1,151	1,459	1,010	482
1963....	16,069	1,155	1,426	1,074	583
1964....	15,938	1,153	1,579	1,113	652
1965....	15,922	1,236	1,659	1,118	845
1966....	16,304	1,255	1,752	1,093	1,026
1967....	16,368	1,315	1,872	1,143	1,268

<sup>1</sup> Consumed directly by humans

Source: Statistique Agricole, 1967-No. 11, 1968-No.10



TABLE 50.-EC dairy products used for animal feed, 1955/56-1966/67

Year	Whole milk	Skim milk	Nonfat dried milk
	<i>1,000 metric tons</i>		
1955/56.....	8,613	13,849	51
1956/57.....	8,652	13,913	70
1957/58.....	9,009	14,222	89
1958/59.....	9,163	14,492	98
1959/60.....	9,539	14,074	157
1960/61.....	10,075	15,092	<sup>1</sup> 92
1961/62.....	9,960	14,962	<sup>1</sup> 119
1962/63.....	10,165	13,935	<sup>1</sup> 170
1963/64.....	10,434	13,629	217
1964/65.....	10,060	12,239	328
1965/66.....	10,287	11,544	<sup>1</sup> 384
1966/67.....	10,174	9,933	<sup>1</sup> 487

<sup>1</sup> Deliveries to the feed industry in the Netherlands not included

Source: Same as table 48

quantities, reaching a level of 500 million pounds at the beginning of 1969. This indicates that a surplus problem now exists in the EC for skim milk powder as well as butter.

The EC has estimated that the dairy cow population, milk yield per cow, and therefore total production, will continue to develop along the lines of the first years under the CAP. The recent Michigan State University study projected EC milk production of 75.4 million tons in 1970 and 85.2 million tons in 1975.<sup>30</sup> If production increases at the 1964-67 rate, the 1970 projection would fall several million tons short of actual production. These figures imply a growing surplus to be exported or consumed domestically, both being alternatives which involve heavy subsidization. Member state officials, especially finance ministers, are increasingly concerned about the cost involved in this disposal.

Once again the problem is focused on the butter market.<sup>31</sup> The additional milk production is expected to increase the size of the annual butter surpluses by approximately 40,000 tons each marketing year, starting with an annual surplus base of 70,000 tons in 1967/68. EC officials hope that this will be reduced to 20,000 tons, for a total surplus of 90,000 instead of 110,000 tons, for the 1968/69 marketing year by measures adopted relative to the liquid milk market. They also hope to dispose of the 150,000 tons in stock as of April 1, 1968, within 3 years (1968/69-1970/71). In this case

<sup>30</sup> See page 103 of publication cited in footnote 6 (page 17).

<sup>31</sup> Newsletter on the CAP, No. 7, May 1968, pp. 9-16.

the butter stocks at the end of 1971/72 would stand at 600,000 tons. These plans seem overly optimistic. If the measures for the liquid milk market and for butter disposal prove ineffective, the EC's butter stocks on April 1, 1972, could approach 770,000 tons.<sup>32</sup>

Costs involved in the intervention and storage of butter in this volume are staggering. At an EC intervention price of \$173.50 per 100 kilograms, the cost of removing 770,000 tons from the market will be over \$1.3 billion. The cost of storing a ton of butter for one year ranges from \$425 to \$450. Stocks at the end of the 1970/71 marketing year would be 560,000 tons, and the costs of storage for that amount for that year alone would be \$238-\$252 million. The cumulative storage costs through the 1971/72 marketing year would reach \$612-\$648 million. Therefore, if no disposal of surplus butter stocks were possible, the EC could spend approximately \$2 billion on the butter problem alone in 1967/68-1971/72. The EC will of course make every effort to dispose of these stocks with the aid of export and consumption subsidies. The proceeds from subsidized sales will reduce the costs of the intervention purchases and of storage. Official estimates place the net cost of butter intervention and storage at \$250 and \$30 million for the years 1968/69 and 1969/70, respectively. These amounts are expected to be exceeded by those starting with the 1970/71 marketing year.

EC officials see the prospects for skim milk powder disposal as brighter. Production capacity expanded to 50,000 tons per year up to 1964 and has been increasing by 150,000 tons per year since then. Production has outstripped growing domestic consumption, and export markets must be developed. However, the world market is now in a surplus situation, and prices have been falling. Thus, the EC will have to pay even larger export subsidies to move its skim milk powder onto the world market.

Therefore, prospects for the EC dairy market are rather dark. Surplus production probably can be disposed of, but at enormous costs to the Community. Drastic measures are needed to correct this situation, but so far the Community has been unable to make the extremely difficult political decisions required to deal with the problem in economically rational terms.

<sup>32</sup> The most recent developments in the EC butter market indicate that the above estimates are much too low. Butter stocks on hand as of April 1, 1969, are estimated at 300,000 tons, and the 1969/70 dairy marketing year is expected to add 210,000 tons to this amount. The resulting accumulation of 510,000 tons by April 1, 1970, would exceed the EC's storage capacity by 60,000 tons.

## Foreign Trade

### Port Barriers

The major barrier faced by dairy product imports to the EC is a variable levy which is equal to the difference between the threshold price and the c.i.f. price, the latter being the lowest representative quotation in the world market. The only exception to this rule concerns Emmenthal, Gruyere, Sbrinz, Schabzieger, and Gouda cheeses. The duty rates for these cheeses are found in the GATT at levels ranging roughly from 12 to 25 percent, and therefore the variable levy applied to these cheeses may not exceed the effective bound duty rates.

The protectiveness of the variable levy may be illustrated by calculating the ad valorem equivalent of the levy on two pilot products which in the past were exported to the Community by the United States. These products are nonfat dried milk and butter. In the period January 1-15, 1969, the following particulars applied to nonfat dried milk and butter:

	Nonfat dried milk	Butter
	----- \$/100 Kg. -----	
Threshold price	54.00	191.25
c.f. price	12.00	30.00
Variable levy	42.00	161.25
Ad valorem equiv.	350 percent	538 percent

Although the c.i.f. prices above may be unrealistically low due to export subsidies and thus exaggerate the ad valorem equivalents, it is still obvious from the extremely high ad valorem equivalents of the levies that free competition by imports in the EC market is not possible and that if the EC is self-sufficient in a dairy product, there will be little or no imports of that product from third countries.

### U.S. Stake in the Common Market

Approximately 80 percent of the milk and cream exported by the United States to all destinations is dried milk and cream, primarily nonfat dried milk. Almost all that is exported to the Community is dried. Therefore, the following analysis of U.S. exports is based upon the dried commodity. Since the Common Market countries import a considerable amount of fresh milk, especially to other member states, the analysis of their exports is based on milk in whatever form.

The following tabulation shows that U.S. exports of dried milk and cream and butter to the Community were very high in 1963, 1964, and 1965, relative to the other years between 1961 and 1967. Also shown is the

percentage of total U.S. exports of these commodities which was exported to the Community:

	1961-62 average	1963-65 average	1965-67 average
----- Million dollars -----			
Value:			
Dried milk and cream ..	4.5	20.7	0
Butter .....	.2	15.1	.1
Share exported to			
Community:	----- Percent -----		
Dried milk and cream ..	6	15	0
Butter .....	27	49	1

Except for 1963-65, the Community has not been a major destination for U.S. exports of milk and butter. U.S. exports of cheese to the Community or any other destination were insignificant between 1961 and 1967.

### Source of Community Imports

**DRIED MILK AND CREAM:** In 1965-67 nearly 70 percent of the imports of these commodities by member states was accounted for by intra-Community trade, with France as the largest supplier (table 51). The United States was the second largest with 12 percent and the European Free Trade Association (EFTA) countries collectively were third with nearly 9 percent.

Year-to-year increases in imports from all sources averaged about 36 percent with the value of trade starting at about \$17 million in 1961 and moving to \$96 million by 1967.

The primary source in the early 1960's was intra-Community trade and that with the EFTA countries, primarily Switzerland and Austria (figure 12). The EFTA countries have maintained a fairly constant level of exports into an expanding market and as a consequence their market share declined substantially. U.S. exports, significant in 1963, 1964, and 1965, were relatively small in prior and subsequent years. On the other hand, intra-Community trade has always accounted for more than 30 percent of the trade and has climbed substantially since 1964, the year in which the CAP was introduced for dairy products.

The rise and fall for the United States is explained by several factors. First, the United States had stocks available for exporting in the early and mid-1960's. At the same time, the world market price for dairy products was depressed and the farmers in dairy producing nations of Western Europe reduced their herds. On the other hand, the low prices unexpectedly increased consumption. The downward adjustment in production was too great and by late 1963, Western Europe was in a



# SOURCES OF EC IMPORTS OF DRIED MILK AND CREAM

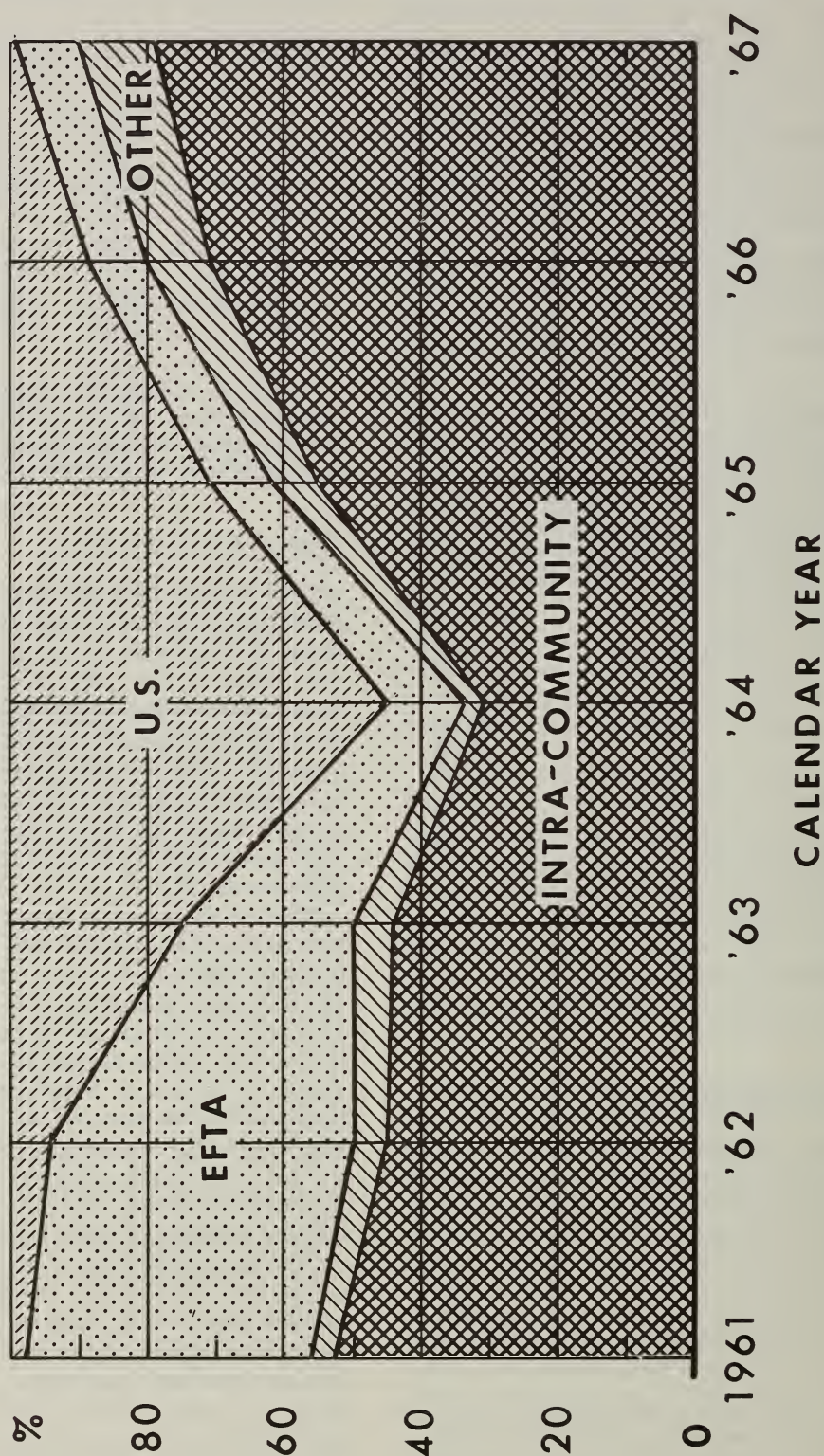




TABLE 51.--Value of EC dry milk imports, by source of imports, and market share for each source

Country	Average value		Change	7-year low		7-year high	
	1961-63	1965-67					
Value imported from:	<i>Mil. dol.</i>	<i>Mil. dol.</i>	<i>Pct.</i>	<i>Mil. dol.</i>	<i>Year</i>	<i>Mil. dol.</i>	<i>Year</i>
World .....	22.4	88.1	293.8	16.6	1961	95.5	1967
United States .....	3.1	10.9	254.1	.3	1961	32.4	1964
EC .....	10.4	61.0	485.1	8.7	1962	75.3	1967
Belgium-Luxem- bourg .....	2.5	10.7	321.1	2.0	1963	12.8	1966
France .....	5.6	24.8	345.7	3.7	1961	32.6	1966
Germany .....	<sup>1</sup> ---	14.7	<sup>2</sup> ---	<sup>1</sup> ---	1962	31.9	1967
Netherlands .....	2.2	10.6	374.1	1.9	1961	16.4	1965
EFTA .....	7.8	7.8	-.2	6.4	1964	8.4	1962
Austria .....	1.8	1.7	-7.1	1.3	1966	2.2	1962
Denmark .....	1.1	1.0	-3.7	.6	1966	1.5	1964
Switzerland .....	3.2	2.6	-18.8	2.1	1967	3.2	1963
United Kingdom ..	1.3	1.9	50.1	<sup>1</sup> ---	1964	3.0	1966
Canada .....	.6	4.0	597.5	.4	1961	4.2	1967
All Others .....	.5	4.5	760.1	.2	1961	7.4	1967
Share imported from:	<i>Percent</i>			<i>Year</i>	<i>Percent</i>	<i>Year</i>	
World .....	100.0	100.0	---	---	---	---	---
United States .....	13.8	12.4	-10.1	.5	1967	55.2	1964
EC .....	46.6	69.2	48.6	31.4	1964	78.8	1967
Belgium-Luxem- bourg .....	11.4	12.1	6.9	6.3	1963	18.5	1961
France .....	24.8	28.1	13.2	10.4	1964	36.3	1966
Germany .....	.2	16.7	<sup>2</sup> ---	<sup>1</sup> ---	1962	33.4	1967
Netherlands .....	10.0	12.0	20.4	6.0	1967	20.8	1965
EFTA .....	34.8	8.8	-74.7	8.6	1967	44.1	1962
Austria .....	8.0	1.9	-76.4	1.4	1966	11.3	1962
Denmark .....	4.8	1.2	-75.6	.7	1966	6.4	1962
Switzerland .....	14.1	2.9	-79.4	2.2	1967	18.8	1961
United Kingdom ..	5.7	2.2	-61.9	.1	1964	8.1	1962
Canada .....	2.5	4.5	77.1	.9	1964	4.9	1965
All Others .....	2.4	5.1	118.4	1.3	1961	7.7	1967

<sup>1</sup> Less than \$50,000 or 0.05 percent<sup>2</sup> More than 1,000 percent change

deficit position. Compounding this position was a drought in Western Europe in the summer of 1964, the first year of year when milk production is seasonally high and usually a surplus condition exists. Export payments to the United States also helped in exporting dairy products to the EC market. By 1965 the entire situation had reversed itself and subsequently dairy production in the Community was protected by the CAP. The United States in 1967 had a very small share of the market and there is no likelihood of any improvement in light of the EC milk surplus today. This outlook holds true for the EFTA countries as well.

**BUTTER:** In 1965-67 about 73 percent of the exports of butter by the member states was accounted for by intra-Community trade, and, as with dried milk, France with 40 percent of the market was the largest supplier within the Community (table 52). The United States and the USSR were the next largest suppliers, but below the level for intra-Community trade.

For the same reasons as with dried milk, the source of supply has varied considerably (figure 13). Shortly after the CAP was introduced butter stocks began to grow and by 1968 a huge butter surplus had developed. The surplus has become a major problem; not only is the Community a closed market for butter, it now looms as a major exporter.

#### Destination of Community Exports

**MILK AND CREAM:** In 1965-67 about a third of the Community's exports were to other member states and the other two-thirds went to a large number of countries. The most shipped to any non-EC nation was \$16 million to Algeria, only 5 percent of total exports. Algeria and a number of the other nations to which the Community exported milk were not commercial markets for the United States. Commercial markets for the United States were very small markets with the exception of Japan. U.S. exports to Japan were displaced by

# SOURCES OF EC IMPORTS OF BUTTER

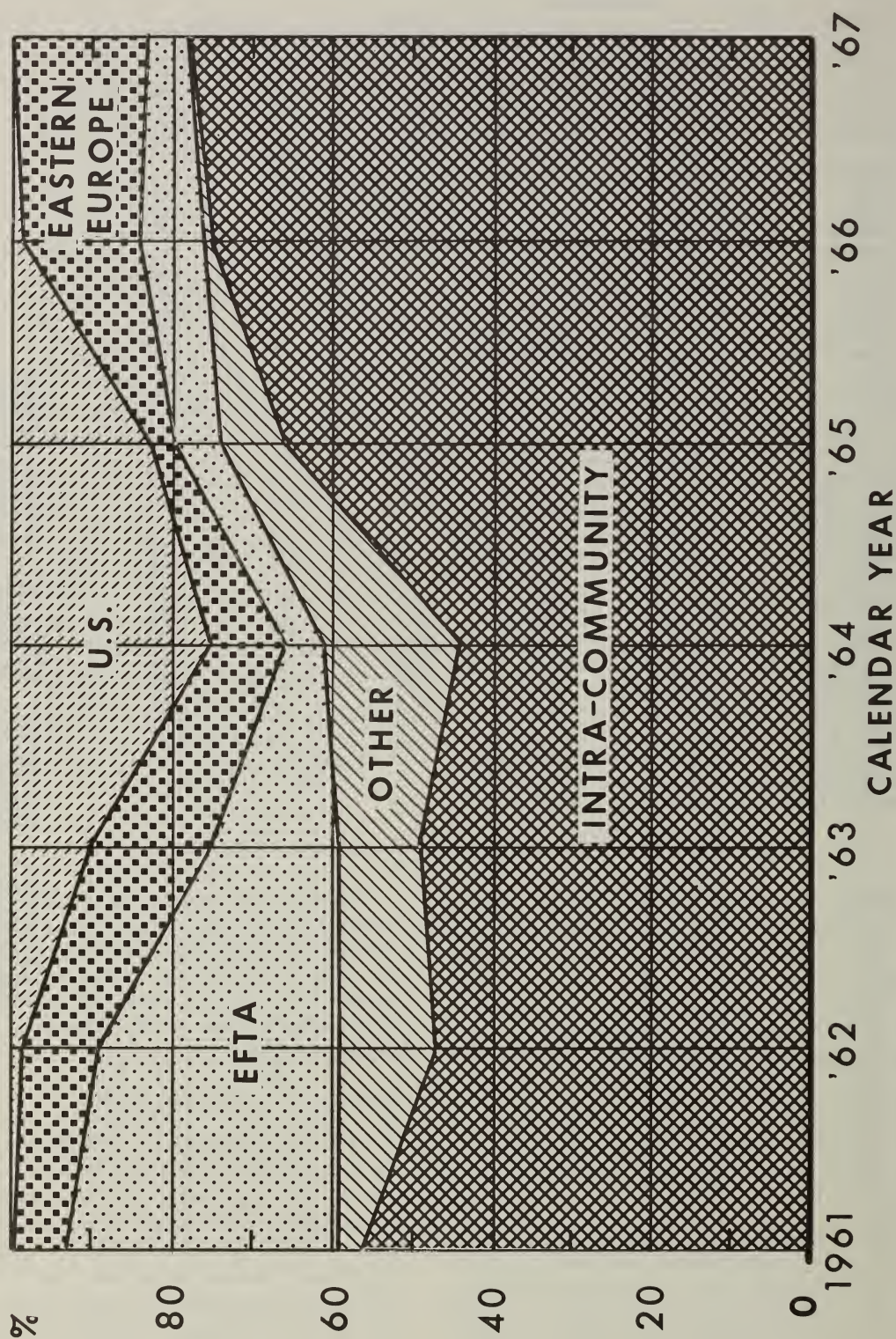




TABLE 52.-Value of EC butter imports, by source of imports, and market share for each source

Country	Average value		Change	7-year low		7-year high	
	1961-63	1965-67					
Imported from:	<i>Mil. dol.</i>	<i>Mil. dol.</i>	<i>Pct.</i>	<i>Mil. dol.</i>	<i>Year</i>	<i>Mil. dol.</i>	<i>Year</i>
U.S.	54.7	70.9	29.7	36.5	1961	80.5	1965
United States	2.5	4.8	92.3	<sup>1</sup> ---	1967	16.9	1964
Canada	27.0	51.6	90.7	20.4	1961	55.5	1967
Belgium-Luxembourg	2.7	5.1	90.0	.8	1964	10.1	1965
France	14.7	28.1	90.8	10.9	1961	36.9	1967
Germany	.1	13.2	<sup>2</sup> ---	<sup>1</sup> ---	1962	20.4	1965
Netherlands	9.6	4.3	-55.6	3.0	1966	11.3	1962
FTA	13.6	4.4	-67.8	3.2	1964	18.1	1962
Austria	1.5	1.4	-5.5	.8	1964	2.0	1965
Denmark	6.2	2.4	-61.1	.8	1964	7.9	1962
Sweden	5.1	.2	-95.1	.1	1965	7.1	1962
Eastern Europe	6.3	7.8	23.0	2.0	1965	12.1	1967
USSR	<sup>1</sup> ---	4.0	<sup>2</sup> ---	<sup>1</sup> ---	<sup>3</sup> 1961	6.7	1967
Poland	2.7	.7	-72.0	.3	1966	3.7	1963
Romania	1.6	1.4	-13.8	.6	1961	3.0	1963
Canada	.1	1.9	<sup>2</sup> ---	<sup>1</sup> ---	<sup>3</sup> 1961	6.9	1964
All Others	5.1	.5	-90.1	.2	1967	7.6	1962
Imported from:	<i>Percent</i>			<i>Year</i>	<i>Percent</i>	<i>Year</i>	
U.S.	100.0	100.0	---	---	---	---	
United States	4.6	6.8	48.3	<sup>1</sup> ---	1967	24.8	1964
Canada	49.4	72.7	47.0	44.2	1964	77.7	1967
Belgium-Luxembourg	4.9	7.1	46.5	1.2	1964	12.6	1965
France	26.9	39.6	47.2	21.4	1965	51.7	1967
Germany	.1	18.7	<sup>2</sup> ---	.1	1962	25.4	1965
Netherlands	17.5	6.0	-65.7	4.8	1966	19.4	1961
FTA	24.9	6.2	-75.2	4.7	1964	33.6	1961
Austria	2.7	1.9	-27.1	1.2	1964	3.2	1962
Denmark	11.3	3.4	-70.0	1.2	1964	16.1	1961
Sweden	9.3	.4	-96.2	.1	1965	12.6	1961
Eastern Europe	11.6	11.0	-5.1	2.5	1965	16.9	1967
USSR	<sup>1</sup> ---	5.6	<sup>2</sup> ---	<sup>1</sup> ---	<sup>3</sup> 1961	9.4	1967
Poland	4.8	1.0	-78.4	.4	1966	5.5	1963
Romania	3.0	2.0	-33.5	1.0	1965	4.4	1963
Canada	.2	2.7	<sup>2</sup> ---	<sup>1</sup> ---	<sup>3</sup> 1961	10.1	1964
All Others	9.3	.7	92.4	.2	1967	12.6	1962

Less than \$50,000 or 0.05 percent

More than 1,000 percent change

First of two or more years at this value

subsidized exports, and therefore, the CAP has had the effect here.

UTTER: About 50 percent of the butter exported to the Community in 1965-67 was to other member States and the only major market outside the Community was the United Kingdom, a \$28 million market. Except in 1963-65 when the European supply of butter was unusually low, the United States exported little butter on a commercial basis. Therefore, there is little in the way of traditional markets for EC exports to replace.

#### Indirect effects of the CAP on U.S. exports

Since the United States has few traditional commercial markets for milk or butter, displacement is generally not a factor.

#### FEOGA Expenditures

FEOGA-financed expenditures on the dairy market began with the 1964/65 marketing year, when the dairy CAP became effective. Expenditures have increased dramatically since then due to both the increasing share



of member state expenditures which are eligible for FEOGA reimbursement and to the rapidly expanding production of milk in the EC. As of July 1, 1968, all member state expenditures in the dairy market were reimbursable from FEOGA.

Actual and estimated FEOGA expenditures for dairy products for 1964/65-1968/69 are as follows:

	Internal Market <u>Intervention</u>	Export <u>Subsidies</u>	<u>Total</u>
	<i>Thousand dollars</i>		
1964/65	7,350	17,867	25,217
1965/66	28,000	70,027	98,027
1966/67	35,000	96,664	131,664
1967/68	150,000	220,000	370,000
1968/69	304,000	320,000	624,000

The EC Council of Ministers decided in May 1968 to seek to limit the shared burden of expenditures in the dairy sector. Therefore, it was decided that total expenditures in the dairy sector in 1968/69 eligible for FEOGA reimbursement should be reduced by \$170 million, and that this amount should be financed by the member states in proportion to the butter stocks they held on April 1, 1968. Butter disposal expenditures are estimated at \$250 million for 1968/69, and therefore this reduction of the common expenditure burden will cover a substantial portion of that amount. Adding the \$170 million to the total in the above tabulation results in estimated total FEOGA and member state expenditures of \$794 million in 1968/69. Furthermore, the Council agreed that if total FEOGA expenditures in the dairy sector exceed \$630 million in 1968/69, appropriate EC-wide economic and financial measures will be adopted to aim at correcting the situation. Also, expenditures in excess of this amount will be financed by FEOGA but with a different set of criteria used in determining the financial burden each member state should bear in financing the excess.

## Implications for U.S. Trade

### Subsidized EC Exports in the U.S. Market

With the help of unlimited export subsidies, the EC has sought to move part of its enormous dairy surplus into the United States in the forms of cheese, condensed milk, chocolate crumb mixtures, and mixtures containing sugar and dairy products. The periodic invasions of the U.S. market by the EC have been of growing concern to U.S. dairy producers and officials. It has been

necessary to impose quotas on a commodity-commodity basis. However, after a quota is applied the United States, the EC seeks another commodity, which dairy products can be incorporated or with which they can be mixed. Then the offensive begins again with that commodity and lasts until the loophole is plugged.

There is also a danger that the United States may lose its skim milk powder markets in third countries because of subsidized sales by the EC, although sales on concessional terms make up a sizeable proportion of U.S. sales. As already pointed out, the EC's production capacity has exceeded domestic demand, and the EC will certainly seek export outlets.

### Subsidized Dairy Products in Animal Feed

By subsidizing skim milk, skim milk powder, and powder with butterfat added, and whole milk used on the farm as animal feed or incorporated in concentrated feeds, the EC hopes to reduce its dairy surplus. To the extent that these feeds and feed supplements replace U.S. exports to the EC of feed grains and other feedstuffs, such as soybeans, the United States will be adversely affected. However, it is questionable that the EC can afford to make the feeding of dairy products an economic alternative for the livestock producer, at least in the volume necessary to seriously affect U.S. grain and feedstuff exports.

### FEOGA Expenditure Limit in the Dairy Sector

Willingness of the EC Council of Ministers to place an upper limit on FEOGA expenditures in the dairy sector may indicate the pattern of future regulations on the financing of the CAP. Political pressure has been building from member states such as Germany and Italy for a different set of financial regulations. The rapidly mounting expenditures by FEOGA in most commodity groups is an issue of increasing concern to these member states. To the extent that they do not contribute to problems which demand such expensive solutions, they feel they should not have to bear the financial burden. It was therefore at their insistence that a limit was placed on the common burden.

The current set of financial regulations for FEOGA runs out at the end of 1969. Before that date, the EC must undertake the difficult task of negotiating and concluding a new set of regulations. These current negotiations will come as large surpluses of certain commodities are accumulating and when FEOGA expenditures are therefore increasing commensurately. With the recent dairy products financial agreement vivid in their memories, the Council of Ministers will pattern an overall settlement along these lines.

member states become responsible once again for a good share of the costs of their own surplus production, measures may be exerted on the Council for significant changes in the high-price, highly protectionist CAP complex.

The financial burden of the dairy surplus is the first and so heavily upon the EC. To the extent that its weight proves unacceptable, present policies will have to be changed. It is difficult to envision a solution in a policy movement towards a more highly protectionist system unless strict production controls are adopted. Therefore, the direction of change could be one of some advantage to U.S. interests.

## FRUITS AND VEGETABLES

### CAP for Fruits and Vegetables

Unique features of the production and marketing of fruits and vegetables, mainly due to the perishability of these products, led the Community to establish market regulations which differ considerably from those on other agricultural products. Because there had been no national price support programs in any of the member countries, there were no existing institutions upon which to build. Moreover, in five member countries this sector was not as important as others. However, since in Italy the fruit and vegetable sector is the primary source of rural income, Italian representatives have pressed for a more comprehensive policy to assure Italian farmers benefits from the CAP in line with those enjoyed by other EC farmers. A common policy is now in force, but the period up to January 1, 1970, is regarded as transitional, with the experience gained to be used as a basis for permanent regulations regarding intervention and export subsidy programs and Community financing responsibilities. The provisions cover most fruits and vegetables produced in or imported into the Community except potatoes and tropical fruits.

#### Key Features

The policy on fresh fruit and vegetables adopted by the Community covers quality standards for produce, provisions for market intervention, an import system based on duties supplemented by a schedule of reference prices, and provisions for export subsidies. Common quality standards now apply to the major fruits and vegetables marketed in the Community. They were developed to facilitate marketing throughout the Community, to eliminate low-quality produce from the market, and to facilitate the communication of consumer requirements to producers to guide in orienting production.

Producers are encouraged to set up associations to give them a stronger position in the market by jointly providing facilities for packaging and marketing, providing for the centralization of sales, and giving some measure of price regulation at the producer stage. The member states are authorized to give limited financial support to the associations during the first 3 years of their existence. This support may not exceed 3 percent of the value of products marketed via an association in the first year, 2 percent in the second year, and 1 percent in the third year. Member producers are required to market their entire output of the relevant product through their association. The associations, individually or in groups, may establish a reserve price (subject to a ceiling determined by the national governments) below which their products will not be sold, and members are paid for any unsold quantities. An intervention fund, to which the members contribute in proportion to quantities offered for sale, is established to finance these measures.

The Community policy on fruit and vegetables also provides for market intervention by the member states for cauliflower, tomatoes, apples, pears, peaches, dessert grapes, oranges, lemons, and tangerines.

Member states participate in two ways, depending upon the seriousness of the price situation. The criterion for determining the seriousness of the price situation is the relationship between the existing sales prices and announced base and purchase prices. These prices are fixed for each marketing year or for periods within the marketing year and are valid for the whole Community. The base price is equal to the average prices reported during the preceding 3 years on the representative market or markets of the Community situated in surplus production areas and having the lowest prices, excluding prices considered as being abnormal. The purchase prices established by the Community are fixed at levels between 40 and 70 percent of the base prices depending upon the product. Until 1970 member states may set the purchase prices at different levels than those fixed for the Community, but these may not exceed 70 percent of the respective base prices.

During periods for which base and purchase prices have been established producer prices are observed daily on representative markets. If the producer prices for a particular product on a representative market remain below the purchase price increased by 15 percent of the base price for 3 consecutive market days, a crisis situation is considered to exist. The member states may then grant financial compensation to the producer associations for the value of products withdrawn from the market. When prices remain equal to or above the purchase price plus 15 percent of the base price for 3



consecutive market days, member state compensation to producer associations is to be discontinued.

If producer prices drop below the purchase price and remain below for 3 consecutive days the market for that product is considered to be in a serious crisis situation. The member states are then authorized to purchase through intervention agencies all produce grown in the Community offered at the purchase price, with adjustments for quality. Under both situations the member states are authorized but are not required to take these actions.

While intra-EC trade in fresh fruits and vegetables is essentially free for those products meeting the Community's minimum quality standards, trade with nonmember states is governed by the Common External Tariff, a system of reference prices and export subsidies. As of July 1, 1968, duties of from 7 to 25 percent for fruit and from 10 to 20 percent for vegetables applied to imports from third countries. However, potentially more significant are the reference prices which serve as minimum import prices and are intended to prevent producer prices in the Community from being threatened by lower priced imports. A countervailing levy may be applied on imports if they are offered at prices below the reference price to bring them up to the level of the reference prices. Export subsidies are authorized for a number of products including citrus fruits, grapes, peaches, certain nuts, and some processed products such as processed tomatoes and cherries and fruit juices. In principle the subsidy is not to exceed the incidence of the Common External Tariff duties plus the countervailing import levies insofar as they are applied.

These provisions concern only fresh fruits and vegetables except for provisions on export subsidies which apply also to selected processed products. Separate regulations cover processed fruits and vegetables. The common market organization provides for duties as specified in the Common External Tariff to apply to imports from third countries. In addition, it provides for a levy based on the added sugar content to be assessed on imports and an equivalent subsidy to be granted on exports.

The Community policy on sugar maintains domestic sugar prices substantially above world prices by a variable levy system similar to that for grains. Because of high sugar prices and the resulting impact on costs of domestic production, EC policymakers reason that the trade system must be constructed so that these added costs are compensated for to assure the ability of Community processors to compete with imports and to export to third countries. Levies are applied also to the glucose and glucose syrup content of processed fruits and vegetables.

Recently the EC has agreed to grant preferential treatment to imports of citrus fruit from Morocco, Tunisia, Turkey, Israel, and Spain. In addition to the import systems set up by the Community, some member states still retain national restrictions such as import calendars and quantitative restrictions on imports of fresh, dried, and canned produce from third countries.

Rules regarding preservatives, coloring, and other additives and pesticide residues also affect trade in fruits and vegetables. The Community issued a directive on maximum tolerances for diphenyl use on citrus fruit. Adoption by all member states was required by July 1968. Rules on other additives and residue tolerances are being considered.

### Evolution of the CAP

The first Community regulations concerning fruits and vegetables came into force on July 1, 1962.<sup>33</sup> They included provisions for the establishment of common quality standards, progressive reduction of duties on intra-Community trade, harmonization of duties on imports from third countries, and setting of reference prices with countervailing levies on imports priced below the reference prices.

Reference prices during the first 2 years were very low relative to prices of imports, and countervailing levies were applied only a few times and never on U.S. produce. Italian representatives maintained that existing rules did not give fruit and vegetable growers the same protection from imports that was being accorded grain producers, for example. They succeeded in getting an agreement by the Community to revise the reference price-countervailing levy provisions as part of the common price package decision in December 1964. Regulations adopted in early 1965 led to higher reference prices nearer to normal offer prices. This increased the probability of the imposition of countervailing levies. Although the levies have been applied infrequently, they have not as yet been applied to U.S. produce, the high reference prices have caused greater uncertainty for fruit and vegetable exports to the Community.

The next major regulation in this commodity area was adopted in mid-1966.<sup>35</sup> It provides for encouragement of the establishment of producer associations, procedures for market intervention, and export subsidies including subsidies for selected processed products. This

<sup>33</sup> Council Regulation No. 23, Journal Official No. L10, Apr. 20, 1962.

<sup>34</sup> Council Regulation No. 65/65, Journal Official No. L10, May 20, 1965.

<sup>35</sup> Council Regulation No. 159/66, Journal Official No. L26, Oct. 27, 1966.



followed in mid-1968 by a regulation for a common market organization for processed fruits and vegetables.<sup>36</sup> The principal features of this regulation are the common rules for assessing levies and granting subsidies on the added sugar in canned and other processed fruit and vegetable imports and exports, respectively.

Despite the general tightening up of the rules on imports and price supports, fruit and vegetable producers do not have the same assurances against price variability as do producers of many other commodities. There are no target prices with automatic procedures for maintaining producer prices at or near desired levels. Intervention measures are intended mainly to prevent severe price drops, with producer associations assigned a role in regulating supplies placed on the market and in maintaining prices. Producers must bear part of the burden of financing price support activities.

<sup>36</sup> Council Regulation No. 865/68, Journal Official No. L 53, July 1, 1968.

## Production and Consumption

All member countries produce a variety of fruits and vegetables, but Italy is the principal producer in both categories, accounting for well over half the total Community output of fruit and a little over half of the quantity of vegetables placed on the market. Table 53 shows the annual average production of the 10 major fruits and 10 major vegetables in each member country for the last 3 years for which data are available. The listing accounts for approximately 90 percent of the Community fruit production and over 60 percent of the vegetables marketed.

Apples are produced in greatest volume. Output is well distributed throughout the Community. Other deciduous fruits are also grown in all the member states, but except for plums and cherries, Italy is the leading producer. The concentration in Italy is greatest for dessert or table grapes and particularly for citrus fruit. Many other fruit species are also grown, but except for

TABLE 53.--EC production of selected fruits and vegetables, by country, 1965-67 annual average

	Germany	France	Italy	Netherlands <sup>1</sup>	Belgium <sup>1</sup>	Luxembourg	Total <sup>2</sup>
<b>Fruits</b>	<i>1,000 metric tons</i>						
Apples.....	1,651	1,340	2,135	397	217	14	5,754
Pears.....	347	327	1,290	89	42	1	2,095
Cherries.....	213	111	212	3	6	1	546
Plums.....	451	130	140	7	4	3	734
Peaches.....	21	402	1,281	1	2	--	1,707
Strawberries.....	24	60	66	33	30	--	213
Dessert grapes.....	--	311	997	6	12	--	1,326
Oranges.....	--	2	1,139	--	--	--	1,141
Tangerines.....	--	1	184	--	--	--	185
Lemons.....	--	--	611	--	--	--	611
All fruit.....	2,915	2,899	9,140	551	317	18	15,838
<b>Vegetables<sup>1,3</sup></b>							
Cauliflower.....	88	339	695	53	56	--	1,231
Carrots.....	161	573	180	118	67	1	1,100
Leeks.....	33	443	16	26	69	--	587
Onions.....	18	211	452	212	25	--	918
Lettuce.....	68	301	337	110	42	--	858
Green peas.....	81	321	247	58	79	--	786
Green beans.....	84	257	258	43	46	--	688
Artichokes.....	--	127	584	--	--	--	711
Tomatoes.....	37	591	3,369	319	83	--	4,398
Melons.....	--	148	914	5	--	--	1,067
All vegetables.....	1,403	5,207	10,301	1,636	787	4	19,338

<sup>1</sup> Data on fruit for the Netherlands and Belgium and on all vegetables include only produce marketed. Other data on fruit are total production.

<sup>2</sup> Calculated from unrounded data

<sup>3</sup> Data for France are 2-year averages (1965-66), except for tomatoes which are 3-year averages (1965-67).

Note: No entry indicates no production, or less than 500 metric tons.

Source: Statistique Agricole, 1968-No. 8

almonds in Italy (about 235,000 metric tons annually), the volume of each is considerably below that of listed species.

A large number of vegetable species are grown in the Community. Tomatoes account for nearly 23 percent of the vegetables marketed, with Italy again in the lead. Of the listed vegetables, production is fairly well distributed among the member states except for artichokes and melons. France leads in carrot and leek production while Italy is ahead in marketing of other major vegetables. Other species not listed are of considerable importance in some member states. For example, the Netherlands markets about 250,000 tons of cucumbers annually, accounting for about half of the volume of sales in the Community.

Fruit and vegetable production has been expanding in recent years although some fluctuations are evident, due primarily to weather variability. Most of the principal fruits and vegetables have contributed to this expansion (table 54). Fruits are produced mainly on trees, so there is a considerable lag between planting and the first harvest. Thus, the reaction of producers to the CAP would not yet be apparent in the production data.

Among the trends shown in table 54, one of the most significant is the pronounced expansion in citrus production. Although this has occurred in both Italy and France, almost all of the absolute increase has taken place in Italy. Italy also has accounted for the bulk of the growth in output of other important fruits. It shares with France the bulk of the increase in output of apples. Production in other member countries showed weak trends with some downward movement apparent in Germany. However, along with the Benelux countries Germany had a bumper crop in 1967. Pear production has moved strongly upward in Italy, more moderately upward in France, but generally declined in the other member states. Similar trends have occurred for peaches. Production of table grapes was sharply higher in 1967 in Italy, but the longer term changes have been more modest.

Production of several vegetables shown in table 54 is characterized more by variability than by distinct trends. Lettuce and green pea marketings appear to have moved downward somewhat, while sales of others have fluctuated erratically or varied with some indication of expansion. The most pronounced growth has occurred

TABLE 54.-EC production of selected fruits and vegetables, 1960-67

	1960	1961	1962	1963	1964	1965	1966	1967
<b>Fruit<sup>1</sup></b>								
	<i>1,000 metric tons</i>							
Apples.....	5,588	4,000	5,104	5,702	5,341	5,139	5,701	6,422
Pears.....	1,733	1,576	1,789	1,867	2,112	1,687	2,419	2,180
Cherries.....	566	541	565	628	648	500	601	536
Plums.....	708	1,083	510	935	566	739	868	596
Peaches.....	1,154	1,382	1,394	1,752	1,803	1,803	1,766	1,552
Strawberries.....	140	176	164	158	203	200	215	225
Dessert grapes.....	1,003	1,083	1,230	1,032	1,146	1,271	1,280	1,428
Oranges.....	742	801	714	924	1,022	999	1,180	n.a.
Tangerines.....	122	128	116	145	165	178	195	n.a.
Lemons.....	337	495	359	487	560	560	604	n.a.
All fruit.....	13,531	13,039	13,324	15,353	15,160	14,658	16,408	<sup>2</sup> 16,640
<b>Vegetables<sup>1,3</sup></b>								
Cauliflower.....	1,083	1,292	1,068	1,121	1,267	1,233	1,183	n.a.
Carrots.....	811	975	1,024	1,149	1,075	1,040	1,095	n.a.
Leeks.....	81	507	513	591	525	571	580	n.a.
Onions.....	783	887	873	898	893	892	879	n.a.
Lettuce.....	462	918	939	948	834	853	840	n.a.
Green peas.....	554	715	763	844	775	709	759	n.a.
Green beans.....	490	597	581	678	695	620	707	n.a.
Artichokes.....	540	577	489	288	556	682	693	n.a.
Tomatoes.....	3,074	3,534	3,584	3,588	3,935	4,190	4,495	4,510
Melons.....	756	865	850	1,075	1,044	1,018	1,063	n.a.
All vegetables.....	15,922	17,015	16,418	17,776	18,384	18,427	19,398	n.a.

<sup>1</sup> Data on fruit for the Netherlands and Belgium and on all vegetables include only produce marketed. Other data on fruit are total production.

<sup>2</sup> Estimated

<sup>3</sup> 1960 data for France excludes production from truck gardens. Therefore, they are not comparable to data for later years.

Source: Statistique Agricole, 1968-No. 8

artichokes, tomatoes, and melons - - vegetables for which Italy is the principal producer. As with fruit, Italy accounts for a major share of the increase in vegetable production, followed by France. Output in the northern members of the EC has been less variable.

While production of fruits and vegetables has been expanding in the EC, consumption has also grown. Table 55 shows supply-utilization data for broad aggregates. Production of deciduous and other noncitrus fruits has grown moderately in the 1960's but has not kept pace with the slightly greater increase in consumption. As a result, net imports have trended upward and the percentage of self-sufficiency has declined. Nevertheless, the Commission has expressed concern that for certain fruits such as apples and pears, and to some extent, peaches, the difference in the rate of growth of production, compared with internal consumption, is likely to lead shortly to a market situation in which larger quantities of products will not find buyers at prices satisfactory to producers.

For citrus fruit, both production and consumption have grown substantially with a greater absolute increase in the latter and a greater percentage increase for the

former. Thus, net imports have grown moderately while the percentage of self-sufficiency has also moved higher.

Supply-utilization data on dried fruit show no secular trend. The Community is dependent on imports for a substantial portion of its consumption and the situation has not changed materially during the 1960's.

The Community is a net exporter of vegetables. In recent years both production and consumption have increased in approximately parallel fashion. Net exports and the ratio of self-sufficiency have fluctuated only moderately.

## Foreign Trade

### Import Barriers

Duties as specified in the Common External Tariff apply to all fresh and processed fruits and vegetables imported from outside the Community. There also are provisions for assessing countervailing levies on selected fresh fruits and vegetables offered at prices below the reference prices. Canned produce is subject to a levy based on the added sugar content. In addition to

TABLE 55.-EC supply and utilization for selected fruit and vegetable aggregates, 1960/61-1966/67

	1960/61	1961/62	1962/63	1963/64	1964/65	1965/66	1966/67
<b>Fruit<sup>1</sup> (Fresh &amp; canned, including juice)<sup>2</sup></b>				<i>1,000 metric tons</i>			
Production .....	11,563	10,596	11,364	12,856	12,527	12,084	13,546
Net trade <sup>3</sup> .....	771	921	1,226	1,094	1,270	1,652	1,594
Utilization .....	12,334	11,517	12,590	13,950	13,797	13,736	15,140
Percent self-sufficient .	94	92	90	92	91	88	89
<b>Citrus fruit (Fresh &amp; canned, incl. juice)<sup>2</sup></b>							
Production .....	1,205	1,428	1,214	1,620	1,808	1,780	2,035
Net trade <sup>3</sup> .....	1,623	1,677	1,785	1,826	2,006	2,060	1,988
Utilization .....	2,828	3,105	2,999	3,446	3,814	3,840	4,023
Percent self-sufficient .	43	46	40	47	47	46	51
<b>Dried fruit<sup>4</sup></b>							
Production .....	54	53	47	54	42	42	45
Net trade <sup>3</sup> .....	174	183	204	182	176	210	155
Utilization .....	228	236	251	236	218	252	200
Percent self-sufficient .	24	22	19	23	19	17	23
<b>Vegetables (Fresh &amp; canned)<sup>2</sup></b>							
Production .....	21,102	21,481	20,808	22,252	22,768	22,817	23,830
Net trade <sup>3</sup> .....	-712	-1,079	-729	-350	-467	-366	-704
Utilization .....	20,390	20,402	20,079	21,902	22,301	22,451	23,126
Percent self-sufficient .	103	105	104	102	102	102	103

<sup>1</sup> All fruit not listed separately below

<sup>2</sup> Weight in terms of fresh produce

<sup>3</sup> Net imports (+), net exports (-), including intra-Community trade

<sup>4</sup> Weight in terms of dried fruit

Source: Statistique Agricole, 1968-No. 2



Community rules affecting imports, several member states retain national restrictions such as quotas or import calendars.

### U.S. Stake in the Common Market

U.S. exports of fruits and vegetables to the EC have averaged close to \$90 million annually in recent years. They were somewhat below this level in 1967 and considerably lower in 1968. Sales to the Community account for roughly 25 percent of total U.S. exports of these commodities (table 56).

### Sources of Community Imports

ORANGES AND TANGERINES, FRESH: Spain, Morocco, and Algeria were the Community's primary source for these commodities (table 57). Algeria's market share declined due to political disturbances and the nationalization of French-owned farms in the fall of 1963. Spain, and to some extent Israel, moved in to fill the vacuum created. The U.S. market share has been only 2 or 3 percent.

Through 1967, import prices in the Community did not fall below the reference prices and so compensatory levies were not applied. However, it is not entirely correct to conclude that the CAP has had no influence on exports of supplier nations. Because of the possibility of these levies, Spain, the largest supplier, placed a quota on its exports to the Community in 1966. For a while it appeared that exporting nations would not be able to

control exports in 1967 because of increased production, and that levies would be applied. Such was not the case that year. However, future increases in production resulting primarily from increased yields in Mediterranean countries may increase exports and trigger the levy. To reduce their dependence on the Community as a market, Mediterranean suppliers have increased their sales efforts in Eastern Europe. Future exports from the United States could be reduced by the levies, but through 1967, the CAP had little effect.

LEMONS, LIMES, GRAPEFRUIT, AND OTHER CITRUS FRUIT, FRESH: Member states obtain most of these imports from Italy; other major suppliers are the United States, Israel, and Spain (table 58). Israel's market share increased somewhat while that for the United States and intra-Community trade declined. Israeli production has increased significantly for a number of years and to dispose of their increased production, they have undertaken an aggressive export sales program in Europe. This, rather than any effect of the CAP, primarily accounts for the changes.

APPLES, FRESH: The EC traditionally has not been a market for apple exports from the United States. Apples are included because of the effects of the CAP on U.S. exports to the United Kingdom, analyzed below.

DRIED FRUIT: By far the most important suppliers are Greece and Turkey followed by the United States, Iran, and Australia (table 59). There were few changes c

TABLE 56.- Annual value of U.S. exports of selected fruits and vegetables and all farm commodities and the relative importance of the EC as a market for these commodities, 1965-67 average

Commodity	Value of U.S. exports to:		Exports to the Community as a share of exports to the world (Col. 2 ÷ Col. 1)	Relative importance of each commodity in U.S. farm exports to EC <sup>1</sup>
	World	European Community		
	(1)	(2)	(3)	(4)
	<i>Million dollars</i>		<i>Percent</i>	
Oranges and tangerines, fresh .....	48	11	22.9	.7
Other citrus fruit, fresh <sup>2</sup> .....	34	11	32.4	.7
Apples, fresh .....	21	2	9.5	.1
Dried fruit .....	50	10	20.0	.7
Preserved fruit .....	113	35	31.0	2.3
Preserved vegetables .....	25	5	20.0	.3
Total, selected fruits and vegetables ..	291	74	25.4	4.9
All farm commodities .....	6,553	1,509	23.0	100.0

<sup>1</sup> Value of each commodity exported to the Community (Col. 2) as a share of the value of all farm commodities exported to the Community

<sup>2</sup> Mostly grapefruit, lemons, and limes

TABLE 57.--Value of EC orange and tangerine imports, by source of imports, and market share for each source

Country	Average value		Change	7-year low		7-year high	
	1961-63	1965-67					
Value imported from:	<i>Mil. dol.</i>	<i>Mil. dol.</i>	<i>Pct.</i>	<i>Mil. dol.</i>	<i>Year</i>	<i>Mil. dol.</i>	<i>Year</i>
World .....	269.9	318.3	17.9	256.6	1961	327.2	1966
United States .....	7.0	10.3	46.7	4.8	1964	12.6	1967
EC .....	14.7	14.2	-3.3	11.9	1962	16.8	1965
Italy .....	12.2	11.3	-7.2	9.4	1966	14.1	1965
Spain .....	96.8	134.6	39.1	82.5	1963	150.4	1966
Union S. Africa .....	16.0	21.3	32.8	15.2	1961	23.3	1964
Morocco .....	53.1	65.3	22.8	48.2	1961	69.5	1965
Algeria .....	49.5	27.9	-43.6	22.1	1967	52.2	1963
Brazil .....	8.1	6.4	-20.4	5.0	1966	9.4	1963
Israel .....	15.6	25.8	65.3	10.3	1961	29.9	1967
All Others .....	9.0	12.5	38.4	6.9	1964	13.0	1967
Market share imported from:		<i>Percent</i>		<i>Year</i>	<i>Percent</i>	<i>Year</i>	
World .....	100.0	100.0	---	---	---	---	---
United States .....	2.6	3.2	24.4	1.7	1964	4.1	1967
EC .....	5.4	4.5	-18.1	3.6	1966	6.4	1961
Italy .....	4.5	3.6	-21.3	2.9	1966	5.2	1961
Spain .....	35.9	42.3	17.9	29.3	1963	46.0	1966
Union S. Africa .....	5.9	6.7	12.6	5.8	1963	8.1	1964
Morocco .....	19.7	20.5	4.1	17.8	1962	22.3	1963
Algeria .....	18.3	8.8	-52.1	7.2	1967	18.5	1963
Brazil .....	3.0	2.0	-32.5	1.5	1966	3.4	1963
Israel .....	5.8	8.1	40.2	4.0	1961	9.8	1967
All Others .....	3.3	3.9	17.3	2.4	1964	4.2	1967

TABLE 58.--Value of EC "other" citrus fruit imports<sup>1</sup>, by source of imports, and market share for each source

Country	Average value		Change	7-year low		7-year high	
	1961-63	1965-67					
Value imported from:	<i>Mil. dol.</i>	<i>Mil. dol.</i>	<i>Pct.</i>	<i>Mil. dol.</i>	<i>Year</i>	<i>Mil. dol.</i>	<i>Year</i>
World .....	50.5	68.8	36.2	43.3	1961	75.8	1967
United States .....	11.1	11.9	7.0	8.4	1962	14.7	1963
EC .....	20.5	25.4	23.9	17.6	1962	26.2	1967
Italy .....	20.0	25.0	24.9	17.2	1962	25.7	1967
EC Assoc. ....	1.5	2.3	49.1	1.0	1961	3.3	1967
Spain .....	5.8	8.9	52.3	3.4	1963	10.1	1967
Union S. Africa .....	.8	3.7	369.0	.5	1961	4.8	1967
Morocco .....	1.4	1.4	4.0	1.1	1966	2.1	1965
Israel .....	4.3	10.8	152.0	2.5	1961	12.7	1967
All Others .....	5.1	4.3	-14.6	3.9	1961	7.2	1963
Market share imported from:		<i>Percent</i>		<i>Year</i>	<i>Percent</i>	<i>Year</i>	
World .....	100.0	100.0	---	---	---	---	---
United States .....	21.9	17.2	-21.4	17.0	1965	23.6	1963
EC .....	40.6	37.0	-9.0	34.6	1967	42.6	1961
Italy .....	39.7	36.4	-8.2	33.9	1967	41.0	1961
EC Assoc. ....	3.1	3.4	9.5	2.3	1961	4.4	1967
Spain .....	11.5	12.9	11.9	5.4	1963	18.5	1962
Union S. Africa .....	1.6	5.4	244.4	1.1	1961	6.3	1967
Morocco .....	2.7	2.1	-23.6	1.5	1967	3.3	1965
Israel .....	8.5	15.7	85.1	5.8	1961	16.9	1966
All Others .....	10.0	6.3	-37.3	5.8	1967	11.5	1963

<sup>1</sup> Includes mostly lemons, limes and grapefruit

TABLE 59.--Value of EC dried fruit imports, by source of imports, and market share for each source

Country	Average value		Change	7-year low		7-year high	
	1961-63	1965-67					
Value imported from:	<i>Mil. dol.</i>	<i>Mil. dol.</i>	<i>Pct.</i>	<i>Mil. dol.</i>	<i>Year</i>	<i>Mil. dol.</i>	<i>Year</i>
World .....	48.1	56.8	18.2	45.2	1963	60.2	1965
United States .....	8.5	10.3	22.0	7.6	1963	10.9	1965
EC .....	2.1	2.7	27.1	2.0	1961	2.9	1966
Italy .....	1.1	1.2	8.2	.9	1964	1.2	1966
EC Assoc. ....	24.4	30.7	26.1	23.5	1961	32.8	1965
Greece .....	11.0	15.7	42.4	9.7	1961	17.3	1965
Turkey .....	13.3	15.0	12.6	11.9	1963	15.5	1965
Eastern Europe ....	2.0	1.8	-9.8	1.7	1963	2.2	1961
Yugoslavia .....	1.4	.7	-48.3	.6	1966	1.7	1961
Australia .....	1.6	4.0	147.3	1.6	1963	5.1	1965
Iran .....	6.0	3.8	-36.4	3.6	1965	6.8	1962
All Others .....	3.5	3.4	-1.8	2.8	1963	4.1	1961
Share imported from:	<i>Percent</i>				<i>Year</i>	<i>Percent</i>	<i>Year</i>
World .....	100.0	100.0	---	---	---	---	---
United States .....	17.6	18.2	3.2	15.2	1964	19.4	1962
EC .....	4.4	4.8	7.6	4.2	1961	5.1	1966
Italy .....	2.3	2.1	-8.5	1.8	1964	2.5	1963
EC Assoc. ....	50.6	54.0	6.7	49.4	1962	54.4	1965
Greece .....	22.9	27.6	20.6	20.5	1961	29.3	1964
Turkey .....	27.7	26.4	-4.7	24.4	1964	29.3	1961
Eastern Europe ....	4.2	3.2	-23.7	3.1	1966	4.7	1961
Yugoslavia .....	2.9	1.3	-56.2	1.0	1966	3.6	1961
Australia .....	3.4	7.1	109.3	3.1	1962	8.5	1965
Iran .....	12.5	6.7	-46.2	5.9	1965	13.1	1962
All Others .....	7.2	6.0	-16.9	5.5	1965	8.7	1961

any significance between 1961 and 1967. Imports from Greece did increase a little faster than total imports, and imports from Iran declined. Greece and Turkey have received preferential treatment not extended to other countries, but through 1967 this had little effect on U.S. exports.

**PRESERVED FRUIT:** Intra-Community trade in 1965-67 accounted for 25 percent of imports, with Italy and the Netherlands as the largest suppliers. The United States was the next largest followed at some distance by Spain, which in turn was followed closely by a large number of small suppliers (table 60). Between 1961-63 and 1965-67 the U.S. market share declined 11 percentage points. Since more than half of this decline was matched by increases for other nonmembers there is little reason to believe that the CAP had much net effect through 1967.

**PRESERVED VEGETABLES:** Intra-Community trade accounts for most of the imports, roughly 45

percent (table 61). China (Taiwan) has become a major supplier. The United States was a significant supplier in the early 1960's but its position has been reduced considerably. By 1967 the EC imported only \$1 million from the United States--down from \$1 million in 1963. Intra-Community trade has grown in value but not as a proportion of total trade.

The importance of Taiwan has increased and that of the United States has declined because of a shift in Germany's imports of white asparagus. The production of this crop is labor intensive. In the United States there was a sharp decline in production and in canned exports after 1964, caused by a lack of workers skilled in cutting of asparagus spears. This resulted from expiration of the special legislation under which seasonal agricultural workers from Mexico had been admitted into the United States. In addition, EC imports of mushrooms from Taiwan have been increasing. The changes of course are in no way tied to the CAP.



TABLE 60.-Value of EC preserved fruit imports, by source of imports, and market share for each source

Country	Average value		Change	7-year low		7-year high	
	1961-63	1965-67					
Value imported from:	<i>Mil. dol.</i>	<i>Mil. dol.</i>	<i>Pct.</i>	<i>Mil. dol.</i>	<i>Year</i>	<i>Mil. dol.</i>	<i>Year</i>
World.....	130.2	201.3	54.6	107.6	1961	213.8	1967
United States.....	37.9	36.6	-3.4	30.3	1967	44.0	1965
EC.....	26.0	50.1	92.8	22.2	1961	60.7	1967
France.....	5.4	6.9	27.8	4.8	1961	7.4	1966
Italy.....	11.4	20.4	78.4	10.6	1961	23.9	1967
Netherlands.....	6.5	13.2	102.6	4.9	1961	16.9	1967
EFTA.....	3.1	3.8	22.4	2.7	1961	4.2	1967
EC-AOM.....	7.6	12.3	62.2	6.8	1961	13.5	1967
Ivory Coast.....	3.8	8.2	116.0	2.9	1961	9.9	1967
Fr. Antilles.....	3.7	3.9	5.2	3.3	1967	4.3	1966
Eastern Europe.....	13.3	22.1	66.2	8.1	1961	24.6	1967
Poland.....	3.1	6.9	124.3	1.8	1961	8.5	1967
Yugoslavia.....	5.2	6.0	15.9	3.8	1961	6.3	1967
Japan.....	4.6	7.6	63.1	4.2	1961	7.9	1965
Spain.....	8.4	14.1	68.0	6.1	1961	15.7	1965
Union S. Africa.....	4.3	7.8	80.3	3.7	1961	8.9	1966
Morocco.....	5.7	8.9	55.3	5.5	1963	10.3	1966
China Formosa.....	4.0	6.7	68.9	3.7	1962	7.5	1965
Israel.....	3.0	6.1	104.8	2.2	1961	7.1	1967
All Others.....	12.3	25.1	104.6	10.1	1961	28.0	1967
Value imported from:		<i>Percent</i>			<i>Year</i>	<i>Percent</i>	<i>Year</i>
World.....	100.0	100.0	---	---	---	---	---
United States.....	29.1	18.2	-37.5	14.2	1967	30.8	1962
EC.....	20.0	24.9	24.7	19.3	1962	28.4	1967
France.....	4.2	3.4	-17.3	3.3	1965	4.5	1961
Italy.....	8.8	10.1	15.4	8.3	1963	11.2	1967
Netherlands.....	5.0	6.6	31.0	4.5	1961	7.9	1967
EFTA.....	2.4	1.9	-20.9	1.8	1966	2.5	1961
EC-AOM.....	5.8	6.1	4.9	4.9	1962	6.4	1964
Ivory Coast.....	2.9	4.1	39.8	2.5	1962	4.6	1967
Fr. Antilles.....	2.9	1.9	-32.0	1.6	1967	3.7	1961
Eastern Europe.....	10.2	11.0	7.5	7.5	1961	12.0	1963
Poland.....	2.4	3.4	45.1	1.7	1961	4.0	1967
Yugoslavia.....	4.0	3.0	-25.0	2.8	1966	4.2	1962
Japan.....	3.6	3.8	5.5	3.1	1963	4.1	1965
Spain.....	6.5	7.0	8.7	5.7	1961	8.2	1965
Union S. Africa.....	3.3	3.9	16.6	3.2	1962	4.5	1966
Morocco.....	4.4	4.4	.5	3.8	1963	5.2	1966
China Formosa.....	3.1	3.3	9.3	2.7	1962	3.9	1965
Israel.....	2.3	3.1	32.5	2.0	1962	3.3	1967
All Others.....	9.4	12.5	32.4	9.2	1963	13.1	1967

TABLE 61.--Value of EC preserved vegetable imports, by source of imports, and market share for each source

Country	Average value		Change	7-year low		7-year high	
	1961-63	1965-67					
Value imported from:	<i>Mil. dol.</i>	<i>Mil. dol.</i>	<i>Pct.</i>	<i>Mil. dol.</i>	<i>Year</i>	<i>Mil. dol.</i>	<i>Year</i>
World.....	67.4	124.4	84.6	47.9	1961	134.1	1967
United States.....	8.7	5.0	-42.3	2.4	1967	10.5	1963
EC.....	31.3	56.7	80.9	24.1	1961	60.0	1967
Belgium-Luxem- bourg.....	9.4	11.9	27.5	6.5	1961	12.3	1965
France.....	7.3	17.8	144.1	6.3	1961	19.9	1966
Italy.....	10.5	15.3	45.7	8.6	1961	16.5	1967
Netherlands....	4.0	11.2	181.9	2.6	1961	12.9	1967
EFTA.....	1.2	2.9	148.5	.9	1962	3.8	1965
Eastern Europe....	6.2	8.6	38.5	4.4	1961	10.0	1966
Bulgaria.....	2.1	3.1	45.5	1.4	1961	3.7	1966
Spain.....	3.8	7.0	82.1	2.8	1961	7.4	1965
Morocco.....	3.0	5.7	87.3	1.9	1961	6.5	1967
Algeria.....	4.6	4.2	-9.9	3.8	1967	5.1	1963
China Formosa....	4.3	26.9	524.8	.9	1961	36.8	1967
All Others.....	4.1	7.4	79.9	2.5	1961	8.4	1967
Share imported from:	<i>Percent</i>			<i>Year</i>	<i>Percent</i>	<i>Year</i>	
World.....	100.0	100.0	---	---	---	---	
United States.....	13.0	4.0	-68.8	1.8	1967	13.6	1962
EC.....	46.5	45.6	-2.0	41.0	1964	50.2	1961
Belgium-Luxem- bourg.....	13.9	9.6	-30.9	8.7	1967	14.8	1962
France.....	10.8	14.3	32.2	7.7	1963	16.0	1966
Italy.....	15.6	12.3	-21.1	12.2	1966	17.9	1961
Netherlands....	5.9	9.0	52.7	5.3	1961	9.6	1967
EFTA.....	1.7	2.3	34.6	1.3	1962	3.3	1965
Eastern Europe....	9.2	6.9	-25.0	5.4	1967	10.2	1963
Bulgaria.....	3.1	2.5	-21.2	1.9	1967	3.3	1962
Spain.....	5.7	5.6	-1.4	5.0	1967	7.3	1964
Morocco.....	4.5	4.6	1.5	3.6	1962	6.3	1964
Algeria.....	6.9	3.4	-51.2	2.8	1967	8.8	1961
China Formosa....	6.4	21.6	238.4	2.0	1961	27.4	1967
All Others.....	6.1	6.0	-2.5	5.1	1961	7.4	1964

### Destination of Community Exports

Common Market exports of a number of fruits and vegetables either do not compete with U.S. exports, or else U.S. exports are insignificant. Fruits and vegetables not analyzed here fall into one or both of these categories.

**LEMONS, LIMES, AND OTHER CITRUS FRUIT, FRESH:** The Common Market is both an importer and an exporter with Italy the chief exporter. Italian exports to Eastern Europe are quite significant, totaling nearly \$17 million in 1965-67, and there are also some exports to Austria, Switzerland, and the United Kingdom. Of these markets only the United Kingdom is of any significance to the United States and even it is a very small one. U.S. exports to the United Kingdom have declined as has the U.S. market share. Both the value of Italian exports and Italy's market share have increased

suggesting the possibility of some displacement imports from the United States.

**FRESH APPLES:** The Community exported apples to the United Kingdom, Austria, and Switzerland in 1965-67. The United Kingdom was a very important market for the United States. There was not much change for the United States in this market between 1961-63 and 1965-67, but in 1967 U.K. imports from France increased sharply (over a 100 percent increase from a base of \$7.5 million in 1966). At the same time imports from the United States declined by more than 20 percent.

**PRESERVED FRUITS:** As with other commodities the Community is both an importer and an exporter. Exports to nonmembers averaged roughly \$40 million a year. The primary market was the United Kingdom which purchased \$17 million in 1965-67, with

remainder scattered in small amounts to a number of markets. Although U.S. exports to the United Kingdom declined, U.K. imports from the EC did not increase either in value or as a proportion of total imports.

#### Direct Effects of the CAP on U.S. Exports

No significant declines were noted in any U.S. exports to any markets which reasonably could be attributed to indirect effects of the CAP.

### **FEOGA Expenditures**

Member states receive reimbursement for half of their expenditures for financial support to producer associations during the first 3 years of operation and full reimbursement from FEOGA for authorized expenditures for market intervention and export subsidies. However, until 1970 the annual reimbursement of expenditures on market intervention is limited to \$40 million for Italy and \$20 million for all the other member states. Eligible expenditures on export subsidies are reimbursed without limit.

Official estimates of FEOGA expenditures of 1966/67-1968/69 are as follows:

	<u>Internal Market Intervention</u>	<u>Export Subsidies</u>	<u>Total</u>
1966/67	\$ 60,000	---	\$ 60,000
1967/68	27,000,000	\$2,000,000	29,000,000
1968/69	45,000,000	2,000,000	47,000,000

### **Implications for U.S. Trade**

U.S. exports of fruits and vegetables have held up very well in recent years. The lower levels in 1967 and 1968 were due in part to reduced supplies in the United States.

#### Raw Produce

Apples and citrus fruit are the major U.S. export in this category. Duties apply to all Community imports and in many cases the maximum levels are set in the GATT. The major exception for products of current interest to the United States is lemons for which the EC has made no commitment on the duty level. Duties do not appear presently to represent a serious restraint to trade although there is considerable interest in further reductions.

The reference price-countervailing levy provisions have a potentially serious trade-detering effect. To date the reference prices have been set at levels below usual offer prices of non-EC produce and particularly those of U.S. exports. However they have been increased in recent years, and there have been times when U.S. product prices were close to the reference prices. If the reference prices are increased further, the probability of countervailing duties being assessed on U.S. exports would be correspondingly increased. It remains to be seen how the Community will apply these provisions on products for which there are GATT bindings. The main effect of these provisions currently is the added uncertainty that they introduce into trade in fresh fruits and vegetables.

A potentially desirable feature of the common policy is the intended eventual elimination of national restriction on imports of both fresh and processed fruits and vegetables. Present restrictions include import quotas for some commodities and the granting of import licenses for certain fresh fruits only after domestic produce has been absorbed by the market. Their removal would benefit third country exporters including the United States if they were not replaced by other equally restrictive measures.

Tolerances for pesticide residues and provisions regarding coloring and other additives are still being discussed in the Community. Establishment of uniform criteria for the EC could benefit trade by removing inconsistencies among present national regulations. However, the net effect could be unfavorable if the adopted rules were to be excessively strict.

The basic conditions that will determine the size of the market available to third country exporters are the future relationships between production and consumption in the Community. Trends noted earlier give some reason for optimism. However, the output of many fruits can be changed only after considerable time lag, and not enough time has elapsed to permit evaluation of the production impact of the limited intervention measures and other provisions implemented in 1967.

#### Processed Produce

The variable levy on the sugar added content of canned fruits and vegetables is of great concern to U.S. and other exporters. More than one-fifth of the annual \$90 million U.S. export trade to the EC (1962-67 average) in fruits and vegetables has recently been subjected to a variable levy on its sugar added content. The principal U.S. products affected by this charge are canned peaches and canned fruit cocktail.

In 1957 imports of canned peaches and canned fruit cocktail into the EC countries were dutiable at ad



valorem percentages ranging from 16 to 35 and averaging 26.5. Benelux alone among the EC member countries, in addition to an ad valorem duty, levied a small additional duty on the sugar added content of canned fruit imports. As the EC developed its Common External Tariff, an ad valorem rate of 27 percent was adopted for Tariff No. 20.06 B IIb under which canned peaches and canned fruit cocktail in containers of 1 kilogram or less, the important U.S. export items, are classified. In addition to that ad valorem rate, a somewhat cryptic provision was made to subject the sugar added content of these products to an additional charge. During the 1960-61 (Dillon Round) Tariff Conference the United States was granted a concession by which the ad valorem rate was reduced to 25 percent. Under the Kennedy Round this rate is to be further reduced to 24 percent. The transitional current rate is 24.6 percent.

The lowering of the original Common External Tariff rate from 27 to 24 percent ad valorem is much more than offset by the introduction on July 1, 1967, of a variable levy on the sugar added content. The sugar levy originally ranged from a low of 15.12 cents per kilogram in the northern countries to a high of 20.84 cents in Italy. It was fixed at 20.22 cents on July 1, 1968, and has subsequently been raised several times. Effective September 10, 1968, it was set at 21.13 cents per kilogram. At normal average trade levels, at least 17 million and more likely 23 million pounds of sugar added to U.S. canned fruit products are subject to that levy. In round numbers, 10 million kilograms would be subject to a levy somewhat in excess of 20 cents, a total annual charge somewhat over \$2 million.

Three considerations make the levy on sugar added to canned fruits imported into the EC painful: (1) The unrealistically high levy rate, (2) the raising of import charges on canned fruit implicit in the levy—a direct inversion of the duty rate reductions granted in the Dillon and Kennedy Rounds, and (3) the increased trading risk and cost inherent in the levy.

(1) The theory behind the levy is that the duty accords Community processors insufficient protection

and that they must be compensated for the higher price they must pay for sugar. The computations are based on the threshold price for refined sugar of 24.94 cents per kilogram and the Paris Terminal Market quotation for white sugar, which in mid-1968 was approximately 13 cents per kilogram. The difference between the two price levels, approximately 21 cents, is the levy. However, U.S. fruit canners must pay about 9 cents—more than twice as much as the Paris Terminal Market quotation for the sugar they use in products to be exported. More equitable would be a variable levy on sugar added amounting to about 5 cents less than that actually charged. The levy also overcompensates for the sugar price differential in that EC sugar prices in the canning areas are considerably below the threshold price.

(2) The levy as now collected completely offsets the Dillon and Kennedy Round concessions and typically subjects canned fruits to a higher import charge than the 32 percent ad valorem duty on such imports in Germany, the principal EC importer, as of 1957. This is shown by the following data: Case of 24 No. 2½ cans of peaches in heavy syrup, 19.725 kilograms net weight, c.i.f. value Rotterdam \$6. A 32-percent duty would be \$1.92.

The 24.6 percent Kennedy Round duty is \$1.48. To this must be added a 54-cent variable levy on sugar making the total import charge \$2.02.

The variable levy is calculated as follows:

Assumed total sugar content	
(by refractometer reading)	23.7%
multiplied by factor 0.93	22.0%
minus natural sugar content	9.0%
sugar added content, subject to levy	13.0%
13.0% x 19.725 kg equals	2.564 kg
2.564 kg x 21.13-cent variable levy equals	54 cents

(3) The possibility of changes in the variable levy on sugar, the need for and the unpredictable result of refractometer reading on imported canned fruit, and delay in final customs liquidation increase trading risk. Also, the refractometer reading requires the destruction of merchandise.

# FEOGA - THE EUROPEAN AGRICULTURAL GUIDANCE AND GUARANTEE FUND

## FEOGA FINANCIAL OPERATIONS

### Expenditures

The flow of funds through the Guarantee Section of FEAGA, which finances internal market intervention and export subsidies, has mounted rapidly since it first began in 1962/63. Through 1966/67 increases were due primarily to two factors. First, as more commodities and commodity groups were organized under CAP regulation, FEAGA became responsible for financing internal market intervention and export subsidies for these commodities. During 1962/63 and 1963/64, only cereals and cereal products, pork, and poultry and eggs were eligible for FEAGA financing. Milk and milk products, and fats and oils were added in 1964/65. Fruits and vegetables were added in 1966/67. In 1967/68, beef and sugar, certain processed agricultural products, and seed oil became eligible. This completes the list of products presently subject to CAP's.

The second factor causing increasing FEAGA expenditures was the increasing FEAGA-reimbursable percentage of member state expenditures on these eligible commodities. The reimbursable portion of these expenditures increased as follows:

1962/63	one-sixth
1963/64	one-third
1964/65	one-half
1965/66	six-tenths
1966/67	seven-tenths
1967/68	all

Each commodity group was organized under a percentage of expenditures on that CAP were reimbursable in the proportion applicable as of that date. This held true until 1967/68, when only commodities in the unified market stage were eligible for complete financing. Until the commodity CAP enters the final stage, only seven-tenths of eligible expenditures are reimbursed. For example, only seven-tenths of eligible expenditures in the dairy sector were reimbursed in 1967/68 because the CAP was not completed until July 1, 1968.

Expenditures from the Guidance Section of FEAGA, which are intended as aids to structural improvement in agriculture, also increased rapidly through 1967/68. During 1962/63-1966/67, allocations could not exceed an amount equal to one-third of total Guarantee Section expenditures. However, since the latter were expected to increase from 1966/67 to 1967/68 and since this would

have strained the budgets of member states (required to provide, as matching aid, an amount equal to 25-40 percent of the total cost of improvement projects), a limit of \$285 million was placed on Guidance Section allocations beginning in 1967/68.

Expenditures from the Special Section during 1967/68-1969/70 are intended to compensate the wheat producers of Germany, Italy, and Luxembourg for losses of income due to the reduction in wheat prices which took place in those countries when the common target price came into effect in mid-1967.

Table 62 presents a summary of FEAGA expenditures by commodity and purpose for 1962/63-1968/69.

### Contributions

Three systems have been used to determine member state contributions to FEAGA since 1962/63. Assessments are made after evidence of eligible expenditures has been submitted to and cleared by EC officials after the end of each marketing year. The first system was applied in 1962/63-1964/65 and consisted of two parts. The first part was assessed according to the percentage scale laid down in Article 200:1 of the Rome Treaty, as follows:

Belgium	7.9%
Luxembourg	0.2
France	28.0
Germany	28.0
Italy	28.0
Netherlands	7.9

This part provided 100, 90, and 80 percent of the contribution in 1962/63, 1963/64, and 1964/65, respectively. The second part, which provided zero, 10, and 20 percent in 1962/63, 1963/64, and 1964/65, was in proportion to each member state's net imports from third countries of commodities organized under the CAP. This part therefore took into account the proceeds from agricultural import levies which would accrue to national treasuries until 1970. A ceiling was also placed on the percentage which any member state would be required to contribute, as follows:

Belgium-Luxembourg	
Economic Union	10.5%
France	28.0
Germany	31.0
Italy	28.0
Netherlands	13.0

TABLE 62.--FEOGA expenditures, by section, commodity, and purpose, 1962/63-1968/69<sup>1,2</sup>

	1962/63	1963/64	1964/65	1965/66	1966/67	1967/68	1968/69
Guarantee section:				<i>Million dollars</i>			
Grains, total . . . . .	28.0	49.0	126.8	120.4	136.5	535.0	666.0
Market intervention . . . . .	6.5	8.9	14.6	16.3	27.4	165.0	212.0
Export subsidies . . . . .	21.5	40.1	112.2	104.0	109.1	370.0	454.0
Rice, total . . . . .	---	---	0.8	( <sup>3</sup> )	0.7	7.0	18.2
Market intervention . . . . .	---	---	---	---	0.1	---	0.2
Export subsidies . . . . .	---	---	0.8	( <sup>3</sup> )	0.6	7.0	18.0
Vegetable fats and oils, total . . . . .	---	---	8.0	---	79.3	194.9	260.8
Producer subsidies . . . . .	---	---	8.0	---	79.3	194.9	253.0
Export subsidies . . . . .	---	---	---	---	---	---	7.8
Poultry, total <sup>4</sup> . . . . .	0.2	0.7	1.3	2.1	2.9	5.0	5.7
Eggs, total <sup>4</sup> . . . . .	0.6	1.0	1.2	1.2	0.7	2.0	1.8
Beef and veal, total . . . . .	---	---	---	---	---	2.0	22.0
Market intervention . . . . .	---	---	---	---	---	---	13.0
Export subsidies . . . . .	---	---	---	---	---	2.0	9.0
Pigmeat, total . . . . .	0.1	---	7.7	14.4	15.3	40.0	42.2
Market intervention . . . . .	---	---	---	---	---	---	0.2
Export subsidies . . . . .	0.1	---	7.7	14.4	15.3	40.0	42.0
Dairy products, total . . . . .	---	---	25.2	98.0	131.7	370.0	624.0
Market intervention . . . . .	---	---	7.4	28.0	35.0	150.0	304.0
Export subsidies . . . . .	---	---	17.9	70.0	96.7	220.0	320.0
Fruits and vegetables, total . . . . .	---	---	---	---	0.1	29.0	47.0
Market intervention . . . . .	---	---	---	---	0.1	27.0	45.0
Export subsidies . . . . .	---	---	---	---	---	2.0	2.0
Sugar, total . . . . .	---	---	---	<sup>5</sup> 4.0	<sup>5</sup> 3.4	110.0	302.0
Market intervention . . . . .	---	---	---	4.0	3.4	50.0	132.0
Export subsidies . . . . .	---	---	---	---	---	60.0	170.0
Processed products, total . . . . .	---	---	---	---	---	18.0	20.0
Total . . . . .	28.7	50.7	170.9	240.1	370.5	1,312.9	2,009.7
Guidance section:							
Total . . . . .	9.1	17.1	54.6	80.0	123.5	285.0	285.0
Special section:							
Total . . . . .	---	---	---	---	---	206.3	138.3
Grand total . . . . .	37.8	67.8	225.5	320.2	494.0	1,804.2	2,433.0

<sup>1</sup> 1967/68-1968/69 figures are official EC estimates.<sup>2</sup> Figures may not add to totals due to rounding.<sup>3</sup> Less than \$50,000<sup>4</sup> CAP regulations provide only for the payment of export subsidies.<sup>5</sup> Special pre-CAP compensation to Belgium

Sources: 1962/63-1967/68 - Amtsblatt der europäischen Gemeinschaften, No. 92, May 28, 1965; No. 110, June 22, 1966; No. April 24, 1967; No. 109, May 10, 1968

1968/69 - Department of State Airgram A-852, Brussels, November 7, 1968



The second system used to determine contributions was a return to straight percentage shares in 1965/66 and 1966/67. The shares were as follows:

	1965/66	1966/67
Belgium	7.95%	7.95%
Luxembourg	0.22	0.22
France	32.58	29.26
Germany	31.67	30.83
Italy	18.00	22.00
Netherlands	9.58	9.74

The third system was applied from July 1967 and will be in effect until December 1969. Under this system, to finance only the Guarantee Section, member states are required to pay into FEOGA an amount equal to 90 percent of their agricultural import levy receipts. The remainder needed to finance total Guarantee Section expenditures will be assessed as follows:

Belgium	8.1%
Luxembourg	0.2
France	32.0
Germany	31.2
Italy	20.3
Netherlands	8.2

The Guidance Section will be financed in its entirety through the above percentage contributions, while contributions to the Special Section will be based on the basis of Article 200:1. It is estimated that 90 percent of the levy receipts will finance approximately only 45 percent of the 1967/68 Guarantee Section expenditures and an even lower percentage in the following 2 years, as expenditures increase sharply and levy receipts remain relatively stable or possibly decline.

Table 63 gives estimates by the German Ministry of Agriculture of contributions to the Guarantee Section of FEOGA for 1967/68 by source.

TABLE 63.-Estimated contributions to the Guarantee Section, by country, 1967/68

Country	Import levies		Fixed scale		Total	
	Million dollars	Per-cent	Million dollars	Per-cent	Million dollars	Per-cent
Belgium	67.30	11.4	58.63	8.1	125.93	9.6
Luxembourg	2.20	0.4	1.45	0.2	3.65	0.3
France	55.53	9.4	231.63	32.0	287.15	21.9
Germany	182.83	31.0	225.85	31.2	408.68	31.1
Italy	171.75	29.2	146.95	20.3	318.68	24.3
Netherlands	109.55	18.6	59.35	8.2	168.93	12.9
Totals	589.15	100.0	723.85	100.0	1,313.00	100.0

Source: Department of State Airgram, A-1603, Bonn, July 22, 1968

The shift to this third system obviously has been at the further expense of countries which are large importers of variable levy items. The financial advantages or disadvantages, however, may not be as clearcut as the table would indicate. Member states such as the Netherlands and Belgium may be enjoying higher levy receipts merely by virtue of their having relatively efficient port and transportation facilities. These attract the shipping trade, even though the ultimate destination of the imports may be another member state. For this reason, they collect levies which would have accrued to the treasury of the ultimate importer in the absence of a common market, and in a sense, they should therefore be required to bear a somewhat greater portion of the total burden. However, this factor certainly does not compensate to any great extent the financial disadvantages for these member states.

### Balance of Member State Contributions and Receipts

The balance between the contributions to and the receipts from FEOGA for each member state developed into one of the EC's most difficult political problems soon after FEOGA began operations. Table 64 presents a summary of contributions and receipts by member states from the beginning of FEOGA in 1962/63 through the end of calendar year 1968. These figures differ from the allocations from and contributions assessed by FEOGA because they represent actual settlement transactions made by the end of 1968. Only 75 percent of both the 1966/67 allocation and the 1967/68 estimated allocation are included in these figures. Otherwise they are complete through 1965/66.

This table shows the glaring disparity between contributions and receipts, especially in the Netherlands, France, Belgium, and Germany, with the first two benefiting from the large net contributions of the latter two. Italy was very critical of the burden-sharing arrangements until it began receiving special allocations for structural measures from the Guidance Section, which served to bring Italy close to an equilibrium position.

### RENEGOTIATION OF FEOGA

The present set of FEOGA regulations will apply through December 1969. Before that deadline, the EC must go through the difficult process of negotiating and concluding a new set of regulations.

There are indications in recent information from the EC that at least some officials in member state governments are coming to agree with EC Commission Vice

TABLE 64.--Total FEOGA income and expenditures, by country, 1962/63-1968

	Contributions		Receipts		Balance
Guarantee section	Million dollars				
Belgium.....	155.8		95.5		-60.3
Luxembourg.....	4.4		0.8		-3.6
France.....	435.7		875.0		+439.3
Germany.....	538.3		163.3		-375.0
Italy.....	411.2		306.7		-104.5
Netherlands.....	199.6		303.9		+104.3
EC <sup>1</sup> .....	1,745.0		1,745.0		---
Guidance section					
Belgium.....	22.9		14.4		-8.5
Luxembourg.....	0.6		2.8		+2.2
France.....	82.5		44.1		-38.4
Germany.....	86.8		56.4		-30.4
Italy.....	64.2		150.8		+86.6
Netherlands.....	27.3		15.9		-11.4
EC <sup>1</sup> .....	284.3		284.3		---
Special section					
Belgium.....	16.5		---		-16.5
Luxembourg.....	0.4		3.3		+2.9
France.....	58.3		---		-58.3
Germany.....	58.3		140.0		+81.7
Italy.....	58.3		65.0		+6.7
Netherlands.....	16.5		---		-16.5
EC <sup>1</sup> .....	208.3		208.3		---
Total FEOGA	Million dollars	Percent	Million dollars	Percent	Million dollars
Belgium.....	195.2	8.7	109.9	4.9	-85.3
Luxembourg.....	5.5	0.2	6.8	0.3	+1.3
France.....	576.5	25.8	919.0	41.1	+342.5
Germany.....	683.3	30.5	359.7	16.1	-323.6
Italy.....	533.7	23.9	522.4	23.3	-11.3
Netherlands.....	243.4	10.9	319.8	14.3	+76.4
EC <sup>1</sup> .....	2,237.5	100.0	2,237.5	100.0	---

<sup>1</sup> Figures may not add to totals due to rounding.

Sources: Same as table 62

President Sicco Mansholt that a rethinking of the CAP structure is in order. The growing dairy surplus, recent fruit and vegetable surpluses, mounting expenditures by FEOGA, and growing dissatisfaction with the inequities in the financial regulations are all coming together to produce a critical situation, politically and economically, within the EC. Commissioner Mansholt has advocated a major shift in emphasis from sole reliance upon price and marketing policies and toward a rational policy of structural reform. Recent production developments under the present price policies are evidence of the validity of Mansholt's statements.

In the fall of 1968, Vice President Mansholt presented to the Commission a plan for massive structural reforms in EC agriculture over a 10-year period. He estimates that the plan would cost in the neighborhood of \$30 billion. While no explicit proposals have been

made for how the plan would be financed, FEOGA's Guidance Section will certainly be considered as a possible channel through which the funds could flow if the plan or parts of it are adopted.

The Guarantee Section will of course continue to play a major role in financing the CAP. Determination of member state contributions may, however, under a major revision to bring the contributions from allocations to each member state more into balance.

The decision to limit the responsibility of FEOGA in financing the dairy surplus may prove to be the pattern of future regulations. The convinced European integrationist may see such a pattern as having a disintegrating effect since he tends to view net gains or losses in the agricultural sector as offset by net gains or losses in the industrial sector. However, it is perhaps better viewed as a politically pragmatic step backward which will save

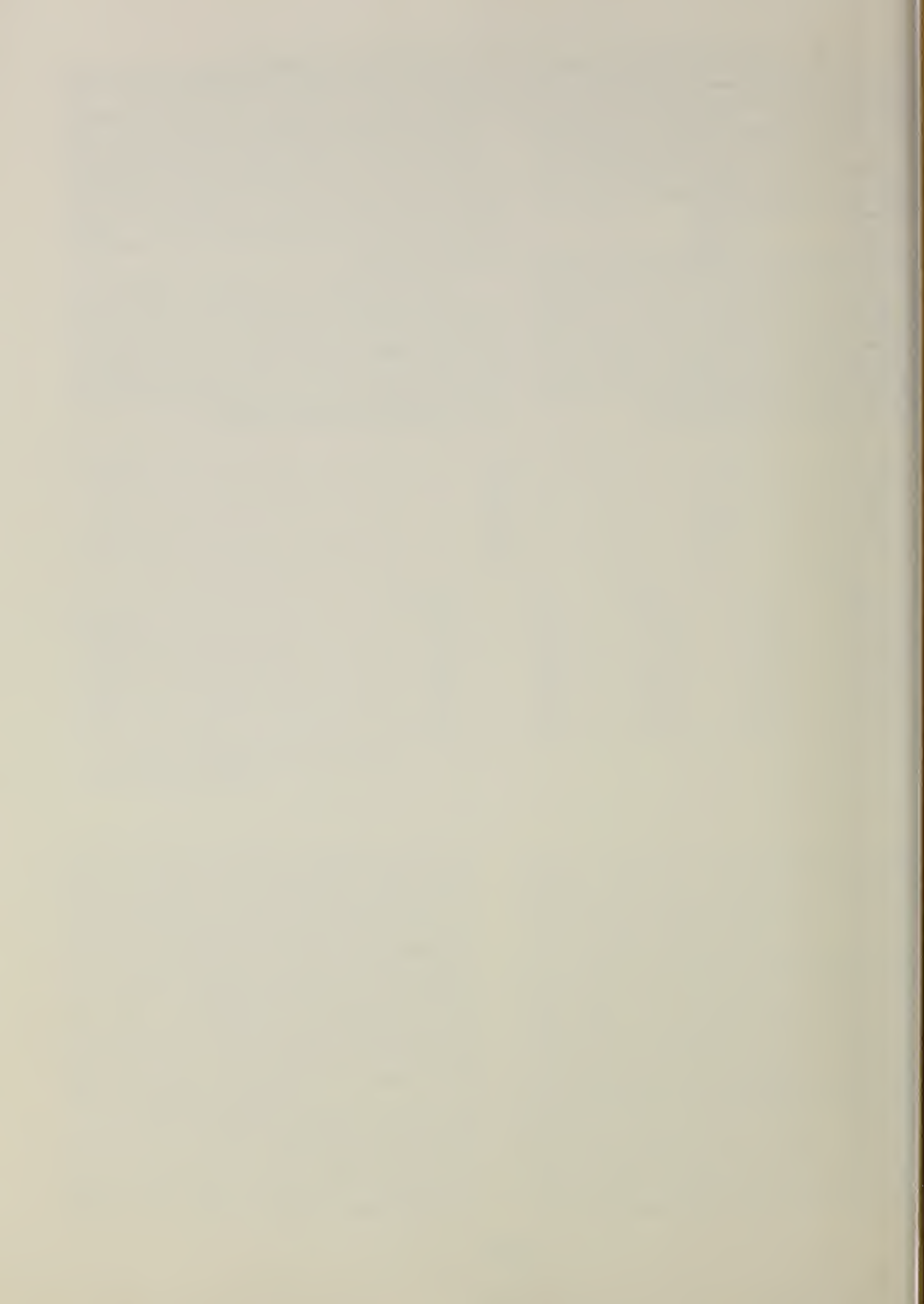
from a violent political conflict. For this reason, it may prove to be the most acceptable method of moving agricultural integration forward while temporarily limiting the common financial liabilities of the present policy. If a rational structures policy is implemented, costs of the CAP will become relatively less in the long-term, and reversion to full common responsibility for CAP costs can be effected.

FEOGA's problems will not be solved by a decision to turn over to the EC all customs duties receipts as well as all agricultural import levy receipts. The member states here again will certainly calculate the cost in terms of revenues ordinarily accruing to their national treasuries and will oppose such a measure unless they are assured of a greater equilibrium between the contributions to and receipts from the EC budget.

As with other important problems in the EC, the problem of financing the CAP is exacerbated by the lack of real political integration. Such political integration implies a willingness to overlook short-term disparities between gains and losses among individual parts of the integrated unit. The EC is not integrated to this extent, and when disparities exist in an economic sector like agriculture, laden with social, political, and economic problems, they assume added importance to member state governments.

For these reasons, the upcoming renegotiation of FEOGA will involve compromises which may or may not be in the best short-term interests of the EC. However, if FEOGA issues are settled within the larger framework of a rational solution to the problems of European agriculture, the seeds will have been sown for the growth of a truly integrated European agriculture.







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